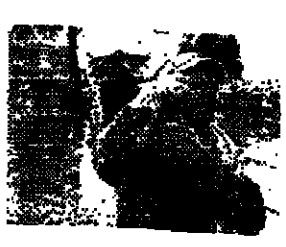
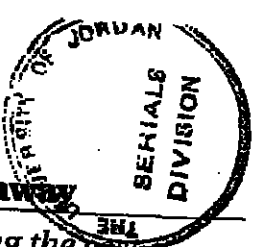


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Swept away
Counting the cost
of Old Man River
Page 4



The twain shall meet
Marrying Hong Kong
and Chinese law
Page 10



Drag on drugs
Managed healthcare
squeezes margins
Page 15



Port in a storm
Overproduction leaves
wine shippers awash
Page 2

FINANCIAL TIMES

Europe's Business Newspaper

TUESDAY JULY 13 1993

Tough action on spending pledged by EC ministers

European Community finance ministers pledged to take action to resolve the crisis in public finances among member states, and accepted that tax rises might be required to restore budgetary stability.

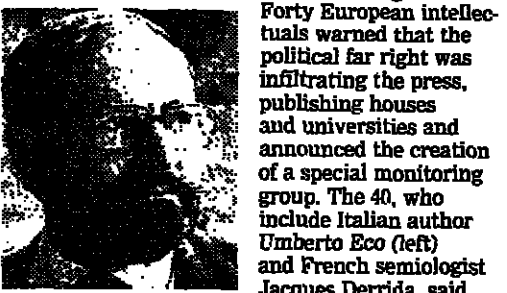
In response to a series of grim warnings from EC central bank governors, ministers agreed that spending cuts alone might not be enough to reduce public borrowing, which has soared as a result of the recession. Page 14

Mortar kills 12: Twelve people were killed when a mortar bomb slammed into a crowd waiting for water in Sarajevo, according to hospital reports. Serbs tighten grip on 'safe area'. Page 2

Apple Computer again lowers the US prices of several of its personal computer products. The move followed reductions in May and June, as the company, which last week announced deep job cuts, struggles to maintain its sales momentum amid a price war. Page 18

British foresees wider trade deal: The four-way tariff-cutting deal struck at the Tokyo summit last week was merely a "down payment" on a much larger prospective trade liberalisation accord, Sir Leon Brittan, EC trade commissioner, said in Geneva. Page 4; Tough talking taints EC-Russian 'partnership' accord, Page 4

Intellectuals to monitor the far right



Forty European intellectuals warned that the political far right was infiltrating the press, publishing houses and universities and announced the creation of a special monitoring group. The 40, who include Italian author Umberto Eco (left) and French semiotician Jacques Derrida, said the far right was conducting a "charm offensive" to legitimate itself in mainstream circles.

Chance to regain power: The Thai air force has been given an unexpected opportunity to try to reassert control over Thai International Airways, the country's flag carrier, with the death last week of its chairman. Page 3

Russian constitutional move: Russia nudged closer to becoming a law-based state when its Constitutional Convention approved a draft constitution setting out the fundamentals of a democratic country based on market principles. Page 2

Fannie Mae record: The US Federal National Mortgage Association reported record second-quarter profits of \$458.8m as the favourable domestic interest rate environment provided a foundation for strong earnings growth. Page 18

Jail threat: German insider traders will face a jail term of up to five years, according to a draft law designed to enhance the competitiveness of Germany as a financial centre. Page 2

QVC, a leading US television shopping network, proposed a share-swap merger with its chief rival, scandal-battered Home Shopping Network. The deal would create a formidable power in the emerging market for electronic retailing. Page 15

UN initiative on Iraqi weapons: Rolf Ekeus, head of the United Nations special commission into Iraq's weapons of mass destruction, may fly to Baghdad this week in a further attempt to resolve the latest stand-off between Iraqi officials and UN weapons inspectors. Page 3

Stamping out ticket exploitation: The British government is to clamp down on ticket agencies which exploit London theatregoers, especially tourists. Some unwary visitors have ended up paying £45 (\$68) for a £7 seat. Page 14

Peace talks fail: Attempts to agree a ceasefire in the struggle for the port of Sukhumi in the Georgian province of Abkhazia broke down. Page 2

Kidnap fear: Warnings that tourists should avoid eastern Turkey were renewed after it was confirmed that a missing British engineer and his Australian cousin had been kidnapped by the rebel Kurdistan Workers' party.

Intel, world's largest computer chipmaker, reported record revenue and earnings for the second quarter and said that it has shipped more than 10,000 Pentium chips, its new high performance microprocessor. Page 15

Earthquakes hit Japan: Two strong earthquakes rocked northern Japan, and seismologists warned that tidal waves could hit coastal areas.

STOCK MARKET INDICES		STERLING	
FT-SE 100	2836.9 (-12.3)	New York lunchtime	\$ 1.4785
Yield	4.04	London	\$ 1.478 (1.4615)
FT-SE Eurotrack 100	1222.90 (+2.34)	DM	2.555 (2.55)
FT-Air Share	1408.16 (-0.4%)	FF	8.726 (8.670)
Nikkei	19,980.00 (+102.61)	FF	2.26 (2.2675)
New York lunchtime		Y	162 (162.5)
Dow Jones Ind. Ave.	3922.17 (+1.11)	£ Index	80.8 (80.8)
S&P Composite	446.50 (+0.53)		
US LONG-TERM RATES		DOLLAR	
Federal Funds	3 1/4%	New York lunchtime	
3-mo Treas. Bill	2.87 1/4%	DM	1.7225 (1.721)
Long Bond	106 1/2	FF	5.9005 (5.895)
Yield	6.822%	Sfr	1.52825 (1.528)
LONDON MONEY		Y	108.05
3-mo interbank	6% (same)	London	DM 1.7225 (1.721)
Libor long gdt future: ...Sep 1993	5 1/4	FF	5.905 (5.895)
	107 1/2	Sfr	1.5285 (1.528)
NORTH SEA OIL (August)		Y	108.5 (108.5)
Brut 15-day (Aug)	\$16.57 (16.51)	£ Index	80.8 (80.4)
Oil			
New York Comex (Aug)	\$394.9 (392.3)		
London	\$394.05 (392.75)	Tokyo close Y 108.93	

Austria	Sw100	Germany	DM100	Malta	LM100	S. Arabia	SR11
Bahrain	Dh1250	Greece	Dr100	Morocco	Mdh13	Singapore	S\$100
Belgium	Bfr100	Hungary	Hfl100	Netherl.	Fl 3.75	South Africa	R100
Bulgaria	Lev100	Ireland	Ir£100	Nigeria	Naira100	Spain	Pes100
Canada	Can\$100	Italy	Lira100	Norway	Nkr100	Sweden	Skr100
Czech Rep.	CzK100	Japan	Yen100	Poland	Polz100	Switzerland	Sfr100
Danish	Dkr100	Kuwait	KuW100	Portugal	Pesc100	Syria	Syr100
Denmark	Dkr100	Lebanon	LbL100	Qatar	Qr100	Taiwan	T\$100
Egypt	E£100	Lux	Lfr100	UAE	Dir100	Turkey	Lira100
France	FFr100					US	D\$100

Possibility of link with VW's Lopez probed by German prosecutors Secret GM documents found

By Christopher Parkes
in Frankfurt

GERMAN PROSECUTORS are looking for links between Volkswagen's controversial new production director Mr José Ignacio Lopez de Arriortua and secret General Motors' documents found in a Wiesbaden apartment.

Investigation of the US group's claims that Mr Lopez and junior colleagues took confidential information with them when they defected to VW this spring took a new turn yesterday after confirmation from Opel that the discovery included details of a top-secret model planned by Adam Opel, GM's German subsidiary.

It also emerged that Mr Jorge

Alvarez Aguirre, who lived in the apartment until recently, was formerly involved in Opel's new model policy through his job as head of Opel's advance purchasing department.

Mr Alvarez was one of two Opel employees who switched to VW shortly after Mr Lopez, head of global purchasing at GM, joined the German company in March. A further five members of his US team also moved to VW at around the same time.

"It is not only a question of the papers we found. We also have to see if there is proof that Mr Lopez has anything to do with the matter," Mr Georg Nauth, spokesman for the Darmstadt prosecutor's office, said yesterday. Interviews with VW and Opel employees were continuing,

but the issues raised by the Wiesbaden discovery made it "hard to say" how long the investigation would last, Mr Nauth said. There were many questions to be answered. For example: "If Mr Lopez had asked to see or saw the papers".

Four large boxes of documents had been discovered, "which did not belong where they were found," Mr Nauth added. He refused to confirm that they included details of Opel's most important current project - a cheap mini-car codenamed the "O-car". But that was not to say reports to that effect were wrong, he noted.

The O-car, which has several codenames, is a new cheap mini-vehicle, due for launch in the second half of this decade. The con-

cept bears a striking resemblance to a projected "people's car" announced since Mr Lopez's arrival by Mr Ferdinand Piech, VW chairman.

Opel's plans for a super-lean works to make the vehicle, provisionally earmarked for Hungary, also closely match those unveiled recently by Mr Lopez for his homeland in the Basque country, northern Spain. Mr Lopez played a leading role in developing Opel's project, and it was his disappointment that it would not be built in Spain which led to him leaving GM and being appointed head of production at VW.

VW, which last week stated that the Basque works would not be built "at this time," yesterday repeated its claim that none of the documents was secret. A law-

yer speaking for Mr Alvarez made a similar claim, although he admitted he had not seen the papers.

Meanwhile, Mr Lopez and Mr Piech were accused of "grave abuse of confidential data" by the head of the automotive industry research centre at Bamberg University. Mr Wolfgang Meisinger said information on vehicle parts price developments, displayed at the VW general meeting, was taken from a secret report prepared for the VDA motor industry association.

The centre had specifically asked for this information to be treated as especially confidential.

Opel leak, Page 2
GM cautious on third quarter, Page 18

Franc falls further despite German support

By John Riddling in Paris
and Emma Tucker in London

THE Bundesbank intervened in international currency markets yesterday in an attempt to support the French franc, which came under attack in the European exchange rate mechanism.

Heavy selling of the franc pushed it below FF3.41 to the D-Mark, less than two centimes above its ERM floor of FF3.3505. The franc closed in London at FF3.416, around its lowest level since the beginning of the year, compared with last Friday's close of FF3.389.

As well as intervention by the German central bank, the franc's fall prompted a statement of support from Mr Theo Waigel, the German finance minister.

Mr Waigel said the fundamentals of the French economy were still healthy and confirmed the strength of Franco-German co-operation in monetary policy. Speaking in Brussels at a meeting of economic and finance ministers, Mr Waigel said further cuts in German interest rates were both possible and desirable.

The Bundesbank council meets on Thursday, but analysts discounted the prospect of a cut in rates unless pressure on the franc became more acute.

Analysts said the franc had been weakened by pessimistic reports about the French economy. A report last week by Insee, the national statistics office, forecast that gross domestic product would fall 0.7 per cent this year and that the unemployment rate would rise to 12.5 per cent by the end of December.

Mr Edouard Balladur, the French prime minister, also expressed his determination to avoid a devaluation of the franc. In an interview in the Figaro newspaper, he said: "I am inextricably attached to the stability of the franc within the European monetary system. I exclude for today, and tomorrow, any other policy."

But economists said they expected the weakness of the franc to continue as investors moved short and long-term funds

Continued on Page 14
Currencies, Page 32

UN rejects call to halt Somali military action

By Michael Littlejohns in New York and Leslie Crawford in Nairobi

THE UNITED NATIONS last night rejected an Italian government request to suspend military action in Somalia following the worst bloodshed in Mogadishu, the capital, since UN troops took over the peacekeeping operation from the US in April.

More than a dozen Somalis died when UN forces bombarded a command centre of General Mohamed Farah Aided, the fugitive warlord. A Mogadishu mob then killed two foreign journalists, a Briton and a German, in revenge. Two others were wounded and a further two remained missing last night.

The crowd paraded the bodies of 16 Somalis who had died in the air raid and said more were lying in the ruins of the Aided compound. Supporters of Gen Aided claimed up to 73 Somalis were dead, but a UN official said only 13 Somalis were killed and about 11 wounded.

Tension has escalated since Somali gunmen ambushed and killed 23 Pakistani peacekeepers on June 5. Since then, a further

22 UN soldiers have been killed. Many more Somalis have died during night air raids against Gen Aided's strongholds. But the UN military operation has failed to capture the defiant general, who went underground after an arrest warrant was issued against him on June 17.

In Rome Mr Fabio Fabbri, Italy's defence minister, said he would ask the US and the UN to suspend combat operations in Somalia in an attempt to reduce tension in the former Italian colony.

"We suggest a cooling-off period to reduce tension, the suspension of combat operations and a renewed effort to restore dialogue," he said. Italy has deployed 2,600 troops in Somalia.

But Mr Joe Sills, a UN official in New York, emphasised that peacekeeping operations were mandated by the UN Security Council and were not subject to decision by individual members.

He told reporters that Mr Boutros Boutros Ghali, the UN secretary-general, felt "very strongly" that in any UN operation the force commander must be in total control, while working within the Council mandate.



Somalis pass through a Mogadishu checkpoint manned by Italian UN troops searching for weapons on Sunday. The picture was taken by Hansi Krauss, the Associated Press photographer killed yesterday

Japanese banks halt loans to debt-laden property developer

By Robert Thomson in Tokyo

LONG-TERM Credit Bank of Japan and four other leading Japanese banks yesterday said they would halt lending to EIE International, a once-aggressive property developer now weighed down by ¥700bn (\$6.5bn) in debts.

Japanese banks have traditionally been reluctant to cut their lifelines to debt-stricken corporate customers, but the EIE International case could mark the start of a tougher approach as the banks write off a mounting pile of non-performing property loans.

EIE International owns hotel resorts and office buildings in the UK, the US, Australia and south-east Asia. Its break with the banks came after a dispute with LTCB, which has ¥190bn in loans outstanding to the company, about half of them defined as "bad".

LTCB said any loan losses would be covered through the sale of its long-term holdings of shares. The bank said the decision to confront the bad debts was taken in the interests of "financial soundness".

The removal of LTCB's support raises questions about how the EIE group will service its debts from now on since the move

sends a clear signal to other banks that it will no longer be responsible for the developer's debts.

Trading in two affiliates of the unlisted EIE International was suspended yesterday. Sea-Com, a shipping and resort company, is listed on the second section of the Tokyo exchange while Electronic and Industrial Enterprises, an electronics supplier, is traded on the over-the-counter market.

Mr Harumori Takahashi, president of EIE International, called a staff meeting yesterday to reassure them that the company would continue trading.

EIE group and its bankers, LTCB, Mizuho Trust and Banking, Mitsubishi Trust and Banking, Sumitomo Trust and Banking, and Nippon Credit Bank, have been negotiating a restructuring package. The banks say the developer was unwilling to accept terms, which included a quickening of property disposals.

Mr Takahashi still has a remarkable collection of buildings, though it is unclear how many will be left in his control if the banks begin calling in their collateral. His group owns Bond University in Australia and luxury hotels in several countries, including a floating hotel moored on the Saigon River in Vietnam.

Top Israelis met PLO at peace talks says Arafat

By Mark Nicholson in Cairo and Julian Ozzanne in Jerusalem

SENIOR Israeli and Palestine Liberation Organisation officials held their first-ever direct discussions during last month's Middle East peace talks in Washington, according to Mr Yasser Arafat, the PLO chairman.

Mr Arafat told Reuters news agency in Tunis that there were two meetings in Washington aimed at breaking the deadlock in the talks, but they were "unsuccessful".

The claim of government-backed contacts was denied in Jerusalem by the office of Mr Yitzhak Rabin, the prime minister, and by Mr Shimon Peres, the foreign minister. However, a Labour member of parliament said his PLO contacts confirmed that Labour MPs had met the PLO, although only with "semi-official" backing.

Direct dialogue with the PLO was expressly proscribed by Israel in its conditions for entering the peace process, on the grounds that it is a terrorist organisation dedicated to the destruction of the Jewish state.

However, the Israeli parliament

Continued on Page 14

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Serb forces tighten grip on UN 'safe area'

By Laura Silber in Belgrade

SERB forces yesterday seized the strategic village of Trnovo to the west of Gorazde in an effort to tighten their stranglehold on the Muslim enclave proclaimed a United Nations "safe area".

Bosnian Serb fighters yesterday celebrated what they called the "liberation" of Trnovo and the seizure of the Rogoz mountain pass and surrounding villages. Radio Belgrade said General Ratko

Mladic, the nationalist Serb commander, had personally conducted the campaign for Trnovo, 18 miles south of Sarajevo, the Bosnian capital.

Another so-called safe area, Sarajevo is now even more vulnerable to its Serb besiegers on the surrounding hills. The latest Serb advance drives a wedge between Gorazde and Sarajevo, two of six Muslim enclaves supposedly under UN protection.

At least 12 people were killed and 15 wounded in the Dob-

rinja area of the city when a Serb mortar exploded in a crowd queuing for water. Serb forces have cut supplies of water, electricity and fuel. The water supply is about a half litre per person each day. Relief workers said yesterday some of the 330,000 people, trapped for 18 months, were drinking water from polluted city wells.

Fighting intensified in most parts of Bosnia, according to local media reports. Radio Sarajevo said the Croatian

Defence Council (HVO) was deploying reinforcements to Mostar, the southwestern city. It said the Muslim-held towns of Fojnica, Jablanica and Konjic were under Croat attack.

A British UN soldier was wounded near Gornji Vakuf, central Bosnia, when his vehicle hit a mine on an aid route.

Serbian radio said Muslim fighters had "retreated in panic leaving behind scores of dead and large quantities of weapons and ammuni-

tion... These successful activities dealt a serious blow to the Muslim forces, smashing their dream of linking by violent means through centuries old Serbian territory. Muslims comprised 69 per cent of the 6,900 population of Trnovo.

As the international community tries to press the Bosnian presidency to accept the republic's ethnic partition, Serb forces are pushing forward to enlarge their state, which covers some 70 per cent of Bosnia. Croats, too, are consolidating

territory for their ethnic minorities.

A Bosnian Serb army statement yesterday claimed its offensive was prompted by Muslim attempts to widen a corridor to transport supplies to tens of thousands of Muslims trapped in Gorazde.

Hopes for progress at the Geneva peace talks were made more remote after bilateral talks broke down between Zagreb officials and Serb rebels from Croatia. Croatia plans to set up a pontoon bridge on

July 18 which Serbs have vowed to destroy raising fears of the re-ignition of the war.

Foreign ministers from 17 Islamic countries, including Bosnia-Herzegovina, yesterday began a two-day special meeting organised by the Organisation of Islamic Countries to discuss the situation in Bosnia.

Farhan Bokhari writes from Islamabad. Mr Haris Silajdzic, Bosnian foreign minister, appealed for more troops to serve under the UN, and an end to the arms embargo.

Opel leak shocks motor industry

By John Griffiths

MOTOR industry executives yesterday expressed surprise at the German announcement that plans for Opel's top-secret model had been found in a flat in Wiesbaden, saying there was an industry that was generally free of industrial espionage.

They said manufacturers searching for ways of increasing competitiveness normally had relatively little difficulty keeping them in-house thanks to the industry's "confidentiality clause" contract system.

Engineers, senior managers and others with access to an early stage in new model programmes, investment and technology strategies have these clauses written into their contracts - and few have been known to abuse them.

"The reason is fairly obvious in the case of anyone whose career is in the industry," one UK motor industry executive who wished to remain anonymous said last night.

"There might be a short-term gain for someone moving confidential information from one company to another, but in the long-term? What does that engineer or executive do if he or she wants or needs to make another move? The word would have got around about what had happened. Put simply, there would be nowhere else in the industry for that person to go."

The system has also survived substantial change in the organisation and processes of the industry which have meant that many more people than even five years ago necessarily have knowledge of key projects and strategies at an early stage.

"The days when a car maker's board had all the good ideas and took decisions behind closed doors has gone," said another.

It is a significant project which will involve the use of a centralised computer database and require information and input at an early stage from people in middle management, engineers and similar.

Far-right arrests in Italy

By Robert Graham in Rome

ITALIAN police yesterday arrested Mr Franco Freda, a well known right-wing extremist, on charges of organising a neo-Nazi party and of racism. At least six other people were detained in different parts of the country.

Organising a neo-Nazi or fascist party has been a crime since 1952, but it is the first time legislation, approved last month, to clamp down on racism has been used.

The arrests suggest the authorities are taking seriously the threat of organised attacks against immigrants and incitement to racism, especially in the light of developments in Germany. In the past year some 300 actions by right-wing extremists have been reported. These have usually been carried out by so-called "Nazis" - shaven-headed youths adorned with Nazi symbols.

Mr Freda recently founded the National Front, which magistrates believe is run from Verona.

He was acquitted in 1985 of involvement in one of Italy's main unresolved terrorist incidents - the planting of a bomb in Milan's Piazza Fontana in 1969 which killed 17 people and left hundreds wounded.

Georgia peace negotiations break down

By John Lloyd in Moscow

ATTEMPTS to agree a ceasefire in the violent struggle for the port of Sukhumi in the Georgian province of Abkhazia broke down yesterday in Moscow.

At the same time, Mr Eduard Shevardnadze, the Georgian leader, warned in the Black Sea port that he was prepared to take harsher action to put down the revolt in the province, where separatists have waged an 18-month struggle to secede from Georgia and join the Russian Federation.

Mr Shevardnadze, who has twice come under shellfire at his army headquarters in Sukhumi, said on Sunday: "Perhaps we must look at resolving this conflict through a combination of military and peaceful means. Until now we have tried to use only peaceful means."

Hopes for a negotiated cease-

fire through the mediation of Mr Boris Pastukhov, Russia's deputy foreign minister, faded yesterday - on Abkhazian demands. These insisted that an Abkhazian parliament and other institutions be permitted to return to Sukhumi and begin work as soon as a ceasefire was agreed, a condition unacceptable to the Georgian side, which still claims authority over Abkhazia.

Most of the province is now in secessionist hands, except for the disputed capital of Sukhumi and the town of Ochamchira.

Russia is accused by many Georgians of supplying military and other assistance to the Abkhazian side. However, Mr Shevardnadze at the weekend said that Mr Tengiz Sigua, the prime minister, had been wrong to threaten to break off diplomatic relations with Moscow. Such a move was "unthinkable".

Constitutional reform a step closer in Russia

By John Lloyd and Dmitri Volkov in Moscow

RUSSIA nudged a little closer to its goal of becoming a law-based state yesterday when its constitutional convention approved by a large majority a draft constitution setting out the fundamentals of a democratic country based on market principles.

Mr Boris Yeltsin, the Russian president, said that "it is now clear that without a principled resolution of the constitutional problem further progress on economic reform is simply impossible in principle".

The document, which runs to 133 articles, now passes for further revision to the assemblies of the regions and republics across Russia - a sure recipe, as Mr Yeltsin tacitly acknowledged, for further delay and extensive revision. The redrafted document is unlikely to be ready by Mr Yeltsin's target date of early August for approval by the convention.

At least a third of the representatives from the regions and the republics - who were the dominant force in the constitutional convention - did not initial the document, and even those who did made it clear that their parliaments were free to revise the document radically.

Mr Victor Stepanov, head of the Karelia republic, said: "We'll take at least two months to go through this property and there are many things we don't like in it."

Mr Yeltsin, in his speech to the convention, said that the

new phenomenon of "republicanism" - regions naming themselves republics in order to qualify for greater privileges under the new constitution - was a futile exercise because, under the constitution, regions and republic had equal rights. This, however, is itself a further cause of difficulty since the republics, traditionally favoured in the Soviet system, wish to preserve their differential privilege.

The draft constitution gives a number of concessions to the regions - giving them the right to have their own "charter" as an antidote to their complaint that republics have the right to a constitution.

They also have the right to promulgate new laws - though, as Mr Yeltsin noted, the tax regime is still undivided between the centre and the regions and republics.

The draft also allows regions and republics to sign separate treaties on bilateral relations with Moscow - a clause inserted at the insistence of the Tatar republic, the most powerful and independent-minded of all the subjects of the federation.

Under the existing constitution, the draft will eventually need to cross the hurdle of being approved by the existing parliament, which is an unlikely prospect. The president's advisers now seem inclined to propose that the convention pass a law on elections - a law which would allow elections later this year to a new form of parliament which would then adopt the constitution.

Draft law aims to enhance country's standing as a financial centre

German insider traders may get 5 years

By David Waller in Frankfurt

GERMAN insider traders will face a jail term of up to five years, according to a draft law published by the German finance ministry yesterday.

The law is designed to enhance the competitiveness of Frankfurt - Deutschland's financial centre - by bringing the regulatory environment for the German securities industry up to international standards.

Central to this is the criminalisation of insider dealing, a practice which is treated as a form of theft in the UK, the US

and other major industrial countries, but remains legal, though increasingly frowned upon in Germany.

Other measures include: Companies will be obliged to disclose shareholdings in other companies when they reach 5 per cent, rather than at 25 per cent as at present. Failure to make the disclosure will be subject to a fine of DM500,000 (€196,850) and could result in loss of the right to exercise voting control over the shares.

It will create a German equivalent of the Securities and Exchange Commission, the centralised supervisory body

for the US securities industry. It will set the minimal nominal value of German shares at DM50 in a deliberate bid to make German shares more attractive to international investors who, the draft law argues, are deterred from investing in German equities because of prices ranging from DM300 to DM1,000 per share.

The law, likely to be enacted in the first half of next year, divides insider dealing into two categories. Primary violators will be those who have direct access to sensitive information because of their position, for

example within company management, or as a shareholder or member of a supervisory board. Secondary violators will be those who deal on sensitive information obtained from primary sources, for which the jail term will be three years.

The law is based on draft proposals floated by the finance ministry in January of last year. The delay, which in part reflects the technical and political difficulties of devising a regulatory structure for the German markets, has more recently become an embarrassment for Germany in the wake of controversial share pur-

chases by Mr Franz Steinkühler, the former head of the IG Metall Union.

Mr Steinkühler denied dealing in insider information gained from his position on the supervisory board of Daimler when he bought shares in Mercedes Holding (MAH), a Daimler-Benz holding company, shortly before an announcement which led to a sharp rise in MAH's share price. The dealings served to expose the inadequacies of the regulatory environment in Germany and senior bankers called for an acceleration in the pace of reforms.

Germany's man at EBRD not quitting

By Quentin Peel in Bonn

MR MANFRED Abelein, German vice-president on the board of the European Bank for Reconstruction and Development, yesterday denied that Bonn was about to replace him because of business dealings in east Germany.

The German finance minister, Mr Theo Waigel, also rejected a report in Der Spiegel, that he and Chancellor Helmut Kohl had decided to replace him at the bank, whose president, Mr Jacques Attali, quit two weeks ago.

Mr Abelein issued a statement stating that his activities on behalf of the east German car manufacturer SAZ - the state enterprise which produced the ubiquitous Trabant saloon car - preceded his appointment as a director of the bank. He denied having had any second job while working at the bank.

He was involved at the SAZ company in Zwickau as a legal adviser for the sale of its drivetrain parts, eventually bought by Britain's GKN. Subsequently Mr Abelein, for 25 years a Christian Democrat member of the German Bundestag, and a close colleague of Mr Kohl, became a member, and then chairman, of the SAZ supervisory board.

According to Der Spiegel, Mr Abelein and a business partner, Mr Werner Frantz, submitted a bill for their activities on behalf of the company totalling more than DM6.5m, (€2.55m) based on an estimated value of the drivetrain parts of DM200m.

The magazine said the bill was questioned by SAZ management, and reduced by over DM2m.

Mr Abelein said his fees had been investigated by a neutral panel, which is an agreement reached with the Treuhand privatisation agency, which still owns SAZ, on an agreed sum. He said he had not repaid any money to the agency.

He gave up his position as chairman of the SAZ supervisory board at the end of 1992.



A Portuguese cooper at work on a port pipe which holds 550 litres of wine

Port growers over a barrel

Peter Wise looks at licences, losses and over-production

PORT wine shippers say their centuries-old trade is facing a collapse in prices and the possibility of 30,000 grape growers being left destitute.

The reason is not to do with the world recession but a breakdown in the balance between sales and production.

The Association of Port Wine Shippers (AEVP) is refusing to make any commitment about quantities of wine they will import in 1993 or how much they will pay. "We already have millions of pounds tied up in stock," said one shipper, "and we simply cannot undertake to increase our stocks further without some guarantee that over-production will cease."

The shippers' underlying fear is that over-production and falling prices will undermine the prestige of port and its hard won reputation.

In a harshly-worded letter to Mr Anibal Cavaco Silva, the Portuguese prime minister, the AEVP warns: "The lowering of consumer prices is discrediting the product, which could suffer the same fate as sherry, with a swing of consumption away to competing drinks."

The association also queries procedures for issuing licences to growers, expressing concern about what they perceive as a lack of control over distributing licences.

They note that the Casa do Douro (House of Douro), which controls wine production in port's demarcated zone in the upper reaches of the Douro river, has granted licences for more than 100,000 pipes of wine in excess of the government stipulated total. (A pipe equals 550 litres.)

This means that stocks of port are now vastly in excess of forecast demand, even allowing for the "law of the third". This

was imposed to guarantee a minimum age for port on the market and states that a company cannot sell more in a given year than one-third of stocks in December of the previous year.

Buyers for European supermarkets that purchase large quantities of port for bottling under their own label have taken advantage of the over-production and the price of buyer's-own-brand (BOB) port has dropped 20 per cent over the past year. Over-production has also hit premium branded port.

The pressure of over-production is now coming to a head and the hardest-hit victims will be the grape farmers of the upper Douro valley. The region was the first to be demarcated in 1766 and farmers are totally dependent on vines for their livelihoods.

Farmers, forced by over-production to sell below cost, face real hardships and there have been angry demonstrations in the streets of Regua, the grape-growing capital.

The amount of wine that can be produced each year is stipulated by a government body, the Port Wine Institute (IVP), on a basis of existing stocks, forecast sales and other factors.

But the responsibility for distributing individual licences stating how much farmers can produce and of what quality, falls to the Casa do Douro.

This is a corporate body left over from the Salazar dictatorship, to which all farmers must belong. Besides allocating growing licences, it also represents farmers in terms of prices fixed with the shippers and buys excess production from growers.

From 1986 the Casa do Douro began issu-

ing production licences far in excess of the overall limit set by the IVP. By 1992 the accumulated excess had reached more than 100,000 pipes. In 1992, the shippers stepped in to buy the excess production of the 1991 harvest themselves to stop the market from being flooded.

The shippers point out that the biggest excesses came in an election year and that the votes of 30,000 farmers were clearly more important than 40 shippers. Some shippers have hinted at corruption saying "the money for election campaigns has to come from somewhere".

The Casa do Douro complicated the issue even further in 1990 when it bought 40 per cent of the second largest Port shipper, Real Companhia Velha (RCV). The Italian financier Carlo De Benedetti and his Portuguese partner recently pulled out of RCV after a year of management squabbles. The Casa do Douro is burdened with debts of over £25bn and stocks that may be worth a lot less than the market prices that body's supporting banks attribute to them.

The solution, according to the shippers, is to wipe the Casa do Douro's massive stocks off the market by distilling them into grape brandy and to hand over production licences to a more independent body such as the IVP. The AEVP urges low production levels over the next few years to restore the balance between stocks and demand.

"We've just been all over Europe holding tastings to celebrate 1991 as a vintage year," said one shipper, "but the truth is the trade is in deep trouble and something needs to be done very quickly."

Community ministers build on summit growth initiative

By David Gardner in Brussels

EUROPEAN Community finance ministers yesterday provisionally approved loan facilities worth Ecu4.5bn (€5.18bn), to try to speed economic recovery and build on the modest "growth initiative" agreed at last December's Edinburgh summit.

If confirmed, after more work on the details of the loans, the move amounts to a sort of deficit-financing, in which the EC has not previously indulged.

The facilities take the form of an Ecu5bn bridging loan for mainly infrastructure projects across the Community; Ecu2bn in European Investment Bank loans for cross-border trans-

port and communications networks; and Ecu1bn in soft loans to small and medium-sized industries.

The bridging loan will be repaid, by 1998, out of the structural funds, the Ecu14.5bn regional and structural aid package agreed at Edinburgh. The intention is for the EC to borrow in the markets to speed up this development spending.

The soft loans for small to medium-sized companies will have an interest rate subsidy of about Ecu125m, part financed out of the EC budget and part paid for by the structural funds.

Agreement on how to share out the structural funds is at the moment held up by a wran-

gle over how big a share should go to Ireland, one of the four poorest member states which receive favoured treatment to enable them to catch up with average EC income levels.

Separately, the ministers failed to unblock a measure increasing EC travel allowances. Germany had blocked an agreement in principle last year, linking any go-ahead to agreement on an Ecu-wide road charges system and liberalisation of road haulage.

Both these issues were the subject of a political agreement on June 19, but Germany appears anxious to see the final text on the road transport measures before surrendering its last negotiating ace.

Ciampi aims for extra revenue

By John Riddling in Paris

THE Italian government is considering raising L32,000bn-L35,000bn (€13.7bn-€15bn) in extra revenues and spending cuts in the 1994 budget, writes Robert Graham in Rome. The aim is to hold the public sector deficit next year to L150,000bn, a small reduction on the 1993 target of L155,000bn.

The budget outlines emerged yesterday as the government indicated it hoped to have the details agreed in cabinet either by the end of this week or early next. Today, Mr Carlo Azeglio Ciampi, prime minister, will be unveiling to parliament the government's three-year macro-economic projections for 1994-96. This will in turn provide the framework for discussion of the 1994 budget.

Weak economy helps drop in French inflation to 1.9%

By John Riddling in Paris

SHARP falls in the price of food and crude oil and weak economic activity kept French consumer prices stable in June, Insee, the national statistics institute announced yesterday.

The annual rate of inflation fell slightly from 2 per cent in May to 1.9 per cent, its lowest rate since last December.

Mr Edmond Alphandery, the economics minister, said the figures showed France had managed to maintain a favourable inflation rate compared with its principal trading partners. But economists in Paris said the figures also reflected the impact of recession.

"With the rise in unemploy-

ment, which is expected to exceed 12 per cent by the end of the year, and with gloomy economic statistics, consumers are preferring to save rather than spend," said an economist at one French bank. "The government may welcome low inflation, but it is also a sign of declining activity."

Food prices fell by 0.7 per cent in June compared with May, while oil prices were 0.4 per cent lower. Prices of manufactured products fell by 0.1 per cent compared with May. The stability in the consumer price index in June, which was unchanged to 0.1 per cent lower, occurred despite two increases in tobacco taxes during the spring.

The increases raised tobacco

prices by 4.6 in June, compared with May. Seasonally adjusted, Insee said that retail prices in June showed a slight increase of between 0.1 and 0.2 per cent.

They said that the reduction in inflationary pressure also reflected a reduction in import prices following currency devaluations by several of France's trading partners.

A spokesman for the institute said that consumer prices were likely to increase again over the next few months. He said that an increase of 5.3 per cent in petrol taxes, imposed from yesterday, and a 18 per cent increase in the duty on alcoholic drinks from July 1, would feed through into a higher inflation rate.

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قائمة المراجعين

Seoul warns of slow progress on N-talks

By John Burton in Seoul

EFFORTS to resolve the North Korean nuclear issue will take several months of "painstaking negotiations," Mr Han Sung-joo, the South Korean foreign minister, said yesterday.

Mr Han cautioned that the process would be complicated because North Korea must hold separate talks with the US, South Korea and the International Atomic Energy Agency (IAEA) on allowing full nuclear inspections.

The US will start talks with North Korea tomorrow in Geneva to persuade Pyongyang to stay within the nuclear non-proliferation treaty (NPT)

and accept IAEA inspections of two nuclear waste facilities that could determine whether North Korea is processing more plutonium than it has declared.

'We recognise that North Korea may have felt insecure'

The US has also indicated that progress should be achieved in implementing mutual nuclear inspections between North and South Korea

before it is willing to expand relations with Pyongyang. North Korea has recently adopted a conciliatory attitude towards the US in preparation for the talks, including toning down its anti-US rhetoric and yesterday returning the remains of 17 UN soldiers killed during the Korean War.

Pyongyang is sending a "signal to Washington that it is interested in improving relations," said Mr Han.

In contrast, US president Bill Clinton during his weekend visit to South Korea appeared to toughen his stance against the North Korean nuclear programme. Earlier he had offered concessions including allowing high-level meetings between US and North Korean officials after Pyongyang threatened in March to leave the NPT. The talks in New York eventually persuaded North Korea to suspend its NPT withdrawal last month.

The tougher US approach has the full backing of Seoul, according to Mr Han.

"We recognised North Korea may have felt insecure and we tried to take measures to allay unnecessary fears North Korea may have had," he explained about the first round of US-North Korean negotiations.

The sharper tone now being adopted was meant to emphasise to North Korea that the nuclear issue "is a very serious matter and must be resolved," he added.

The foreign minister denied there were any differences between the US and South Korea on how to deal with the North Korean issue, explaining that Seoul did not favour a more conciliatory approach than Washington.

He was "neither optimistic nor pessimistic about the outcome" of this week's US-North Korean talks. However, Pyongyang had no choice but to accept nuclear inspections because it wanted to avoid UN economic sanctions. "I have no doubt that North Korea does not want to be faced with," Mr Han said, referring to the country's difficult economic situation.

State banks feel the pinch in Indonesia

THE Indonesian government is preparing for battle with its recalcitrant state banks amid growing concern about their loans.

A study by the World Bank, giving an economic overview to an aid donors' conference in Paris at the end of June, said in a section on the banking system that "loan portfolio quality has deteriorated sharply since 1990... maintaining stability in the banking system is now the chief objective of financial policy".

This was followed by a leaked local report on the finances of the state banks, which accounted for over half the banking sector's total assets of Rp133,689bn (\$58.7bn) at the end of 1992.

Details of the report began to appear in the Indonesian press last month. Government officials deny it was drawn up by the central bank and will not confirm its authenticity, but say it could be the work of "monetary authorities".

The report estimates that last December 32 per cent of state banks' loan portfolio of Rp71,701bn were non-performing - usually defined as having no interest paid for more than three months. It also says that Rp21,000bn in loans were made by six state banks to just 35 companies, of which 26 were in payment arrears on loans totalling Rp6,927bn.

The state banks are renowned for having suffered years of incompetent and corrupt management. The problem they present to the government, however, is more than just bad banking practice. Many of the 26 companies allegedly in arrears are newly emerging, politically well-connected conglomerates, including three led by relatives of President Suharto.

In its study, the World Bank criticises such conglomerates, pointing out their formation "may not be to take advantage of competitive opportunities". It suggests they are seeking excess profits from monopolies granted by the government.

It says: "The growth of conglomerates during the 1980s appears to have been much faster than could be sustained from retained earnings... the implication is that debt-financing has been a major source of growth."

The apparent result is an array of conglomerates - whose interests range from financial services to agribusiness and petrochemicals - built upon state bank loans which, despite the borrowers' often monopolistic positions, have turned sour.

Many bankers believe the conglomerates can afford to service the loans but they doubt the government has sufficient leverage to enforce repayment. As one business executive explains, "many of the conglomerates see themselves as shareholders in President Suharto's regime".

Dr Sahir, managing director of the Institute for Economic and Financial Research in Jakarta, says: "The only path by which you can control their power is through a more efficient market system, so that you have more competitive pressure for each conglomerate."

William Keeling on concern over quality of loans

Bankers say, however, that the government is responding to the crisis.

The government might intervene by forcing conglomerates to sell shares to state pension funds. The finance raised could pay off the conglomerates' bad debt and give the pension funds equity in some of Indonesia's largest businesses.

The government has also taken up a suggestion in the World Bank study that "lower interest rates would both improve financial soundness and spur credit growth". Bank Indonesia has cut by one-third to an average 8.5 per cent the key interest on government bonds since the beginning of May and state banks have lowered deposit and lending rates.

A sudden increase in credit, however, could result in a surge in imports, deteriorating balance of payments and inflationary pressures.

Economists also warn that new credit provided by banks could itself become non-performing. They point out that many private banks - also burdened by non-performing loans - are owned by the same conglomerates indebted to the state banks and which have often used their banking subsidiaries to fund intra-group activities.

A lowering of interest rates, therefore, is unlikely to pull the banking system back into line. Instead, the long-term solution lies in withdrawing the political patronage by which conglomerates have obtained state bank credit and the confidence not to repay.

Whether the government has the stomach fully to engage the conglomerates remains to be seen.

Italy seeks to calm row with US on Somalia

By Robert Graham in Rome

ITALY yesterday sought to calm a growing row with the US over the handling of military operations in Somalia.

Mr Fabio Fabbri, the defence minister, said it would be a mistake to allow mutual recriminations between the Italian contingent in Mogadishu and the US-controlled United Nations forces in Somalia (Unisom) to get out of hand.

Italian forces in Mogadishu, who 10 days ago suffered three killed and 21 wounded, has blamed the US for failing to consult and co-ordinate. This led at the Tokyo summit of the Group of Seven leading industrial nations to an agreement between US and Italian officials that the their local diplomats in Mogadishu should form a political co-ordinating committee.

However, Italian politicians and the press have complained

that Italian troops have been placed in a highly volatile area of the Somali capital and possess equipment geared to a humanitarian peace keeping mission - not a peace enforcement mission which it has now become.

Yesterday Mr Fabbri said Italy had requested "a reassessment of the aims of the mission which covers the relationship between the end - pacification, conciliation and humanitarian aid - and the means."

The minister went on to warn that there was a real danger that the turn of events was leading the mission towards "a long period of combat operations."

Mr Fabbri's observations coincided with the approval of the budget for Italy's 2,500 troops in Somalia.

The first six months have cost 1,558bn (€237m) and a further 1,900bn for the final half of 1993.



Cambodia's army displays the country's new flag yesterday, reinstated from Prince Norodom Sihanouk's rule in the 1960s

Thai air force seeks renewal of power at national airline

By William Barnes in Bangkok

THE THAI air force has been given an unexpected opportunity to try to reassert control over Thai International Airways, the country's flag carrier, following the sudden death last week of its chairman, Mr Pandit Bunyapana.

Thai International's vice-chairman, Air Chief Marshal Gun Pimarnit, has clearly signalled that the air force which he heads should decide who replaces Mr Pandit as chairman.

Mr Pandit apparently died in his sleep of a heart attack last Thursday while on a Thai International flight from London to Bangkok.

Mr Pimarnit threatened to resign in February because the air force was being given little say in running the company.

Thai International was an air force fiefdom until the military's fall from grace last year following its unsuccessful but bloody attempt to maintain control of the government.

Air Chief Marshal Kaset Rojananil, who had been chairman until then, was replaced by Mr Pandit, permanent secretary at the finance ministry which is the majority shareholder.

Mr Pandit apparently died in his sleep of a heart attack last Thursday while on a Thai International flight from London to Bangkok.

Mr Pimarnit threatened to resign in February because the air force was being given little say in running the company.

and the airline's respected president, Mr Chatrachai Bunyapana.

Joining the faction-ridden management, the finance ministry and the air force in the tussle for control of Thai has been an ambitious deputy transport and communications minister, Mr Thawee Kraiupit, who has led a crusade for the carrier to be brought under his ministry's jurisdiction.

One airline analyst in Bangkok said: "It's a four-way fight for control which - by the end of the decade - the management will have won because Thai will never be competitive in the long run without independent professional management. The question is how

painful the process is going to be."

A minority of the airline's shares was floated in July 1993. It has struggled in recent years under the weight of previous management mistakes and over-optimism.

Profits for the latest half-year were Bt568.4m (\$22.5m) compared with Bt1,311bn in 1992. Many brokers say full year profits will be little more than Bt2bn - a third of the company's original forecasts. Thai International's share price has risen 22 per cent over the last five trading days, hitting its 10 per cent daily limit rise over each of the last two trading sessions, to close at Bt49.75 yesterday.

UN arms expert may fly to Baghdad this week

By Mark Nicholson in Cairo

MR ROLF EKEUS, head of the United Nations special commission into Iraq's weapons of mass destruction, may fly to Baghdad this week in a further attempt to resolve peacefully the latest stand-off between Iraqi officials and UN weapons inspectors, diplomats at the UN said yesterday.

The UN Security Council was last night discussing its next move in the impasse, which follows the abrupt departure from Iraq on Sunday of a UN weapons inspection team after it failed to win Iraq's agreement to seal monitoring equipment at two missile testing sites.

Mr Ekeus has visited Iraq before to defuse similar stand-offs. One UN diplomat said another trip this week would enable the Security Council "not to act precipitately, but show that it was serious" about forcing Iraqi compliance with Gulf war ceasefire resolutions.

Iraqi newspapers yesterday suggested Mr Ekeus would find little warmth in Baghdad. The official al-Jumhuriya decried attempts to monitor the test sites as "evidence of the wicked and malicious intentions of Ekeus and the criminal designs of those standing behind him".

The Security Council has already warned in a June 18 statement of

"serious consequences" should Iraq continue to resist UN attempts to monitor the sites at al-Rafah and Yam al-Azim, respectively 70km west and south-west of Baghdad. An earlier UN team failed to persuade Iraqi authorities to install video monitors to prevent testing of missiles with a range of more than 150km, prohibited under ceasefire resolutions.

Diplomats in New York consider that no further warning to Iraq or UN resolution would formally be required before a strike on the two sites, but last night they were playing down any prospect of immediate action. "We're not at crisis point yet," one said.

China, one of the five permanent members of the Security Council, yesterday distanced itself from talk of a strike, with Foreign Ministry officials in Beijing saying the confrontation should be resolved "through consultation and dialogue".

Some officials in New York said they were inclined to apply more pressure, but wait and see if Iraq would eventually back down, as it has in previous run-ins with UN inspection teams.

Nevertheless, an attack remains a clear option, one which was raised immediately by Mr Al Gore, the US vice president, who warned Iraq not to "trifle" with the world community.

The two sites are understood to be in industrial zones where there would be far less risk of "collateral" damage and civilian casualties than in last month's US cruise missile raid on Iraqi intelligence headquarters in central Baghdad.

Each site comprises a small cluster of buildings, with a test stand at each to allow the monitored firing of missile engines - with liquid fuel at al-Rafah and solid fuel at Yam al-Azim. The housing for these stands would offer a natural target in any raid. It was at these that UN teams sought to install cameras and later to seal and lock monitoring sensors.

Editorial comment, Page 13

Earthquakes hit north Japan

Powerful earthquakes jolted wide areas of northern Japan yesterday and residents in coastal areas braced for tidal waves. Reuter reports from Tokyo. A series of strong tremors of up to 7.8 on the Richter scale struck beneath waters southwest of Japan's main northern island of Hokkaido, the National Meteorological Agency said. Seismologists issued tidal wave warnings for much of northern and western Japan. NHK television said several people were injured.

Moroccan unionist pardoned

Mr Noubir Amaoui, the secretary general of Morocco's influential trade union, the Confederation Democratique du Travail (CDT), was released from prison yesterday after being pardoned by King Hassan, writes Francis Gillies in London. He had been sentenced to two years' imprisonment for allegedly "insulting the government" in an interview published 18 months ago.

Mr Amaoui is a member of the ruling council of the Moroccan opposition party Union Socialiste des Forces Populaires (USFP). Three weeks ago the USFP won 48 seats in elections considered by observers to be the fairest in many years.

China to cut metal jobs

China's metal industry is the latest state-owned operation to announce a big restructuring, promising to cut 330,000 jobs during the next seven years. Reuter reports from Beijing.

But few if any of the workers to be laid off by the China National Nonferrous Metals Industry Corp (CNNC) will end up jobless, the China Daily said yesterday. "Workers made redundant are to be re-employed in service industries and other profitable businesses set up under collective ownership by CNNC's subsidiaries," the official newspaper said.

Liberians seek ceasefire pact

Liberia's three warring factions yesterday began drafting a new ceasefire accord to try to end the country's civil war. Reuter reports from Geneva.

United Nations and African officials said the factions and the interim government of national unity were reworking a failed 1991 pact. The text was being finalised before going to a full session of the week-long negotiations, which began on Saturday at the UN's European headquarters.

Togo parties agree on elections

Togo's government and opposition have signed an accord for the West African country's first multi-party elections after two years of often bloody transition. Reuter reports from Lome. The president of the COD 2 opposition alliance said the agreement meant Togo was finally on the way to democracy.

Iraq's Kurds await the wrath of Saddam

The level of allied protection to be expected is uncertain, writes Gareth Smyth

AS TENSION between Iraq and the west rises again, fears that Baghdad will attack the Kurds in retaliation for last month's western air strikes have compounded the daily anxieties of the 5m population of the Kurdish enclave of northern Iraq.

Left in limbo for two years, the enclave can do little to help itself, either by attracting investment to rebuild its shattered infrastructure or by tapping oil reserves.

President Saddam Hussein is a man of surprises. His strategy has been to wait. Economic hardship will, he believes, compel the Kurdish leadership to resume autonomy negotiations broken off in 1991.

The Kurds are in a weak position. Kurdish leaders have no clear idea what Allied protection they might get. "We are getting confusing signals," a senior Kurdish official said.

All of Iraq is covered by United Nations Security Council resolution 688 which demands that Mr Saddam's regime ends internal repres-

sion. Specific additional safeguards for the Kurds date from 1991, when 15,000 allied troops entered northern Iraq to enforce the world's first "safe haven." This uncertain departure in international procedures persuaded over 1m Kurds to return.

The safe haven near the Turkish border which Iraqi troops were forbidden to enter is now in effect defunct: only 18 allied soldiers - based in Zakho - remain. The wider "no-fly zone", Iraqi aircraft north of the 36th parallel, is still in force.

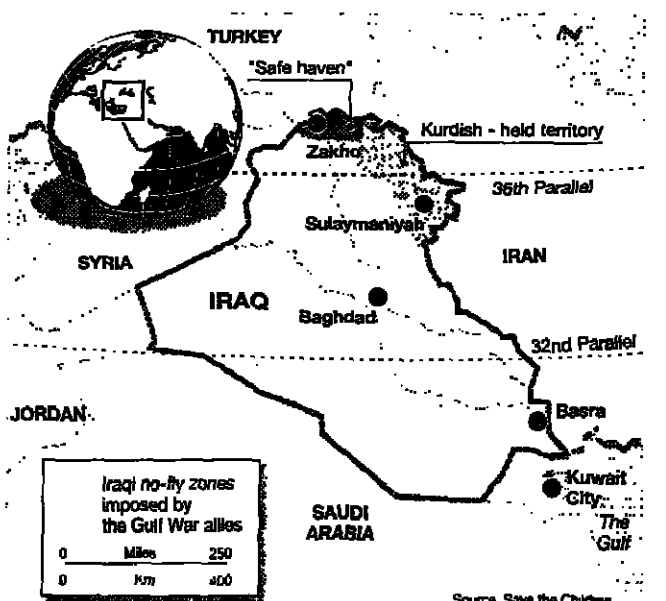
But the political geography of northern Iraq is more complex still. The Kurdish-held zone, from which Mr Saddam withdrew all administration in October 1991, is divided from the rest of Iraq by an informal "green line". While part of the no-fly zone is in government hands, a substantial part of the Kurdish-held zone, including the city of Sulaymaniyah, is outside the no-fly zone and so beyond any area of formal western commitment.

No-one doubts the ability of Iraqi forces to subdue the Kurds. A recent US congressional report said Iraq had rebuilt 80 per cent of its military manufacturing capacity and returned to service 2,500 tanks and 250 aircraft.

The Kurds do not expect support from allied ground troops. "If the Iraqis launch a major offensive, the allies will intervene," Mr Hoshiyar Zebari, a Kurdish spokesman, said in Washington earlier this month. "But it would be from the air." Uncertainty over security hampers rebuilding of the Kurdish infrastructure. The Kurdish-held zone, like the rest of Iraq, is subject to UN sanctions.

"Electricity, telecommunications, and roads are all in ruin," Mr Latif Rashid, another Kurdish representative, told aid workers in London recently. "Local factories have ceased to function."

Early reports say this year's harvest is good, but much will find its way to Baghdad. "The Iraqis have raised the price paid for the crops and farmers



Kurds and Iran have deteriorated recently as Tehran became increasingly concerned at Kurdish unrest within its own borders, fostered, it believes, by Iraqi Kurdish television stations.

Since March Iranian jets and artillery have bombed guerrilla bases operated by the Kurdistan Democratic Party of Iran inside Iraq.

The ending in June by the Kurdish Workers Party (PKK) of their two-month ceasefire with the Turkish army alarms the Iraqi Kurds, whose most important trade lifeline is threatened by the resumption of hostilities in south-east Turkey.

The alternative is re-opening autonomy talks with Baghdad.

Mr Mukarram Talabani, a former Iraqi government minister, operates as a go-between and reportedly made a recent visit to the Kurdish leadership. But the further their economic situation deteriorates, the weaker will be the Kurds' negotiating position.

are desperate to get money," said Mr Zebari.

The Kurdish leadership seeks acceptance abroad, but recent regional developments are unfavourable. Both Iran

and Turkey, neighbouring countries with 5m and 10m Kurds respectively, have denounced the Iraqi Kurds' plan for a federal Iraq.

Relations between the Iraqi

NEWS: THE AMERICAS

Worst may be over as some floodwaters start to recede

Break in the US rains

By George Graham
in Washington

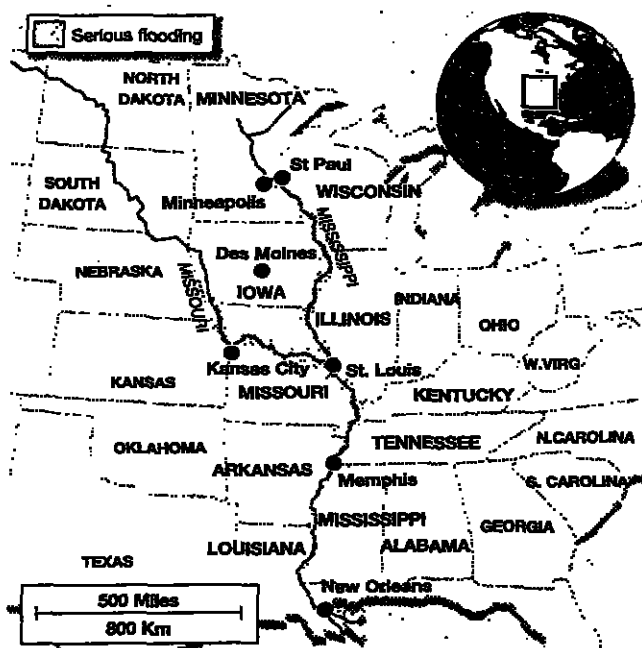
BRIGHT sunshine and a break in the rains yesterday gave some hope that the worst might be over for the drenched farmers and townspeople of the Upper Mississippi basin.

Although weather forecasters continued to warn that the chance of renewed rain had not gone away, some tributary rivers seemed to have stabilised and floodwaters began to recede in a few areas of the six-state region that has been devastated by weeks of flooding.

The federal government too was looking on the bright side. As Vice President Al Gore flew to St. Louis to inspect the flood damage, Mr Robert Reich, the labour secretary, suggested that the flooding might actually improve the employment outlook in the short term.

"You're going to have so many state dollars and federal dollars, so much rebuilding of the area, that a lot of people are going to have to be put to work to rebuild," Mr Reich said.

Mr Gore's visit yesterday appeared designed to head off criticism of the administration



for not taking a close enough interest in the disaster areas. Although President Bill Clinton visited the region a week ago on his way to the Tokyo summit, his stopover for a holiday in Hawaii on the way back

had given ammunition to those who wished to attack him. Federal officials have declined to give an overall estimate of the cost of the flood damage, but federal disaster relief has been promised, and

an emergency spending bill is expected to be required to provide the money.

Even if the rains stop, it may take some time for flooding to subside, because many upstream dams, built to provide flood containment capacity, are overflowing and will have to continue to release water.

At the same time, earth and sand levees built along the riverbanks remain saturated and could continue to give way long after the floodwaters have receded.

Meanwhile the heatwave that has baked areas of the US east coast eased yesterday. A storm that caused showers in the northern Rockies early yesterday was moving east, bringing hope that it would break the heat in the east by midweek.

A second front, pushing down from Canada and the Great Lakes, is also expected to bring cooler weather.

Philadelphia saw one of the worst death tolls from the hot spell, with 24 people declared dead of heat-related causes, raising the city's death toll to 41 by Sunday, according to Dr Robert K. Ross, the city's health commissioner.



Sightseers look at the flooded streets of Davenport, Iowa, yesterday from the top of a multi-story car park

Markets are unworried by crop losses

By Lisa Brantzen
in Washington and
Laurie Morse in London

CROP losses from the high rainfall and flooding in the US Midwest have so far been around \$2bn (£1.3bn), according to estimates from Iowa State University, with nearly half the losses in flooded Iowa farm country.

Some counties in Iowa have had three times the normal amount of rainfall this month, deluging the richest corn-growing area in the US.

Nearly 4m acres of prime midwestern farmland have either been too wet to plant spring crops or flooded by the swollen rivers.

While that may mean disaster for many individual farmers, the flood's impact on world cereal prices is expected to be very small.

"This is not a significant event," said Mr Dennis Starleaf, head of the economics department at Iowa State University. "It is way too early to tell if we won't actually get a boost in yields because of the excess moisture."

There is an old commodity market axiom that "rain makes grain". Although farm country on either side of the Mississippi river is under

water, and floods are occurring in other parts of Iowa and Missouri, crops in the eastern US corn belt, in the states of Ohio, Indiana, and eastern Illinois, are in excellent condition.

In addition, farmers still have over 2bn bushels of maize in store from last year's crop. The feedgrain supply is more than adequate, with few prospects for long-term food price inflation, Mr Starleaf said.

At the Chicago Board of Trade yesterday, traders sent soybean prices sharply lower as flood-related panic buying ebbed. Soybean prices for harvest-time delivery have soared more than 20 per cent since mid-June, to more than \$7 per bushel.

However, yesterday's price setback was predictable after such a big advance. Crop analysts now fear that if high prices are sustained through the summer, it will encourage Brazilian farmers to plant record acreage with soybeans.

A loss of 4m acres to the floods is small when compared to the 6m that were planted with maize and soybeans in the US last year, when record yields resulted in a bumper 240.8m metric tonnes maize crop and a respectable 60m tonnes soybean harvest.

Action plan for World Bank

George Graham looks at moves to improve project supervision

THE World Bank has increased its budget for supervision activities by 12 per cent for the current year as part of its efforts to improve the effectiveness of its lending.

Mr Ernest Stern, a World Bank managing director and acting president while Mr Lewis Preston, the president, is recovering from surgery, said yesterday that the new action plan agreed at a board meeting last week would accelerate a cultural change within the bank and should help to improve the management of the 1,850 projects in its portfolio.

"Central to the plan is the commitment to make the management of projects under implementation as important as making new loans. Only

sound, on-the-ground results - the development impact of projects - are true measures of the bank's contribution to sustainable development," Mr Stern said.

The new action plan comes in response to last year's report by a taskforce headed by Mr Willi Wapenhans, a World Bank veteran, which identified a sharp decline in the quality of the bank's portfolio, with particular problems in Africa and in the agricultural sector.

At the heart of the plan is a new determination to manage the bank's entire portfolio of projects within each country

as a unit, instead of project by project.

Mr Stern said country reviews would in future be conducted annually for big borrower countries, and on a regular basis for smaller borrowers.

Over half of the bank's biggest country portfolios, however, have already undergone review, and as a result a number of projects have been cancelled or redesigned.

In India, a review led to the cancellation of projects totalling \$1.3bn (£866m), while a similar review in Brazil brought the cancellation of five big projects worth \$600m, substantial redesign of 14 more

projects, mostly in the agricultural sector, and lesser changes to 14 others.

Mr Stern insisted, however, that the fundamental responsibility for ensuring that projects were properly implemented lay with the borrower, not the bank.

"The bank's efforts to improve the development impact of its work, ultimately, can only be as successful as the efforts taken by our borrowers to help themselves," Mr Stern said.

The action plan also sets out new criteria for climbing up the World Bank career ladder, with staff winning promotion less for their ability to push through new loans and more for their ability to follow through on existing projects.

Government to foot most of bill

By Nikkai Tait

MOST OF the insurance cost resulting from the Mississippi floods will be picked up by the federal government, under the National Flood Insurance Programme and a separate federal-run crop insurance scheme.

The Federal Insurance Administration, which runs the National Flood Insurance Programme, said yesterday it could not yet put a figure on the cost of the disaster in insurance terms.

By Friday, it had received 41 claims in Illinois, where it has about 3,600 policyholders,

about 29 claims in Missouri, where there are more than 7,300 policyholders, and smaller numbers of claims from Wisconsin, Iowa and Minnesota.

However, these numbers are expected to increase once the waters have receded and the extent of the damage becomes clearer.

The National Flood Insurance Programme, which began life about 25 years ago, is administered by private sector insurers, who pay out claims and are then reimbursed by the federal authorities. Over the past eight years, the pro-

gramme has been self-funding, according to the American Insurance Association - with premiums collected from policyholders meeting the claims submitted.

Both the Federal Insurance Administration and the AIA acknowledge that there may be substantial under-insurance - or non-insurance - in flood-affected areas.

The AIA estimates that there are about 10m buildings in the nation's flood plains, and that only about 2.5m are covered by federal insurance. There is virtually no private-sector flood insurance written, although

supplementary coverage is sometimes purchased to top up the federal scheme.

As a result, a number of the largest US property-casualty insurers, who suffered multi-billion-dollar losses from Hurricane Andrew in August last year and Hurricane Hugo in 1989, said the Mississippi situation should cause them little trouble.

"Much of the flooding situation is covered by federal government, and we're a relatively small player on the commercial side," said Allstate, the large Chicago-based property-casualty insurer.

NEWS: WORLD TRADE

City office space boost for Macao

MR Stanley Ho, Macao's casino tycoon, has unveiled a \$1.4bn (£930m) plan to develop the Portuguese colony's central business district which will increase the size of Macao city by 20 per cent, reports Simon Holberton from Macao.

The three-stage Nam Van Lakes development will cover an area of 150 hectares and provide 46 development sites for offices, housing and hotels, as well as two fresh water lakes. It is due to be completed by 1999, the year in which Macao reverts to Chinese sovereignty.

Work on the project's first stage, worth Patacas 3bn (£248m), is due to be completed in 1995 and will provide fully serviced reclaimed land suitable for eight office towers, three residential developments and a luxury hotel.

The project is owned by Nam Van Development, 60 per cent controlled by mainland Chinese interests. Mr Ho's Sociedade de Turismo e Diversões de Macau (STDM) owns 25 per cent of the company, which is capitalised at Patacas 800m.

Tokyo deal just 'down payment'

Brittan seeks bigger world trade accord

By Frances Williams in Geneva

THE four-way tariff-cutting deal struck at the Tokyo summit last week was merely a "down payment" on a much larger prospective trade liberalisation accord, Sir Leon Brittan, EC trade commissioner, said yesterday.

Sir Leon, in Geneva to brief trading partners on the outcome of the summit, told a news conference that the European Community and the other Quad countries - the US, Japan and Canada - were prepared to go further if other nations taking part in the Uruguay Round of global trade talks responded with new market access concessions of their own.

"We have more to offer if others have more to offer," he

said, singling out as EC targets more extensive reductions in US textiles tariffs and better access to financial services markets in east Asian economies.

The agreement by the Quad countries to eliminate tariffs in eight sectors, cut other duties by up to 50 per cent and push for liberalisation of financial and other services markets will form the basis for intensive bilateral and multilateral negotiations on market-opening measures between Uruguay Round participants over the next three to four weeks.

These talks will be launched formally tomorrow morning when the top-level Trade Negotiations Committee, chaired by Mr Peter Sutherland, director-general of the General Agreement on Tariffs and Trade,



Sir Leon Brittan, EC trade commissioner, Mr Minoru Endo, Japan's UN ambassador, and Mr John Schmidt, deputy US trade representative, meet before lunch near Geneva yesterday

meets to agree a work programme to conclude the 116-nation talks by December 15.

After a short August break for holidays and consultations in national capitals, negotiations will restart in Geneva in September on the remaining outstanding issues in the round.

These include disagreements over anti-dumping and subsidies rules, dispute settlement and the creation of a powerful

Multilateral Trade Organisation. The US wants changes in the draft rule-making package of Uruguay Round accords affecting an MTO.

Sir Leon said yesterday that the draft rules package should be subject to only limited changes, and reaffirmed the EC's backing for an MTO which would curb recourse to unilateral trade measures to solve disputes.

Yesterday evening, Sir Leon

was due to host a dinner for members of Eurofer, the European steelmakers' association, and his fellow commissioners, Mr Karel Van Miert and Mr Martin Bangemann.

EC officials said the subject was an "exchange of views" on the planned restructuring of the European steel industry, competition from eastern European steel producers, and the stalemate in negotiations on a Multilateral Steel Agreement.

Taipei near \$11bn fighter deal

TAIPEI's plans to buy 210 advanced fighters from the US and France came a step closer yesterday when a joint legislative committee approved NT\$18.7bn (\$11.4bn) in funds for the purchases, reports Dennis Engbarth from Taipei.

Formal approval by parliament to purchase 150 F-16 Falcons from the US and 60 Mirage 2000 fighters from France is expected later this week, even though the lack of clear provisions for technology transfers to Taiwan will attract widespread criticism from lawmakers in both the ruling Kuomintang and the opposition Democratic Progressive party.

Mr Sun Chen, Taiwan's minister of national defence, said the 210 advanced aircraft will join 130 IDF (Indigenous developed fighters) now under production and 90 remaining F-5E fighters in the island's revamped air defence force.

The 430 jet fighters are expected to meet all Taiwan's air defence needs until the year 2000 without more purchases from foreign suppliers, Mr Sun said.

Bulgarian trade deal delayed

BULGARIA has been hit by the failure of the EC Council of Ministers to approve the interim trade agreement signed on March 8 as part of Bulgaria's proposed Association Agreement with the EC, Anthony Robinson writes.

Bulgaria has already suffered most from the EC and UN sanctions on Serbia and the closure of trade routes through that country. The EC's failure also puts in jeopardy its trade agreement with European Free Trade Association countries, whose timetable depends on completing all stages of EC internal Association Agreement procedures.

Bulgarian officials believe the delay stems from stone-walling by Italian officials seeking to strengthen the safeguard clauses protecting EC members from cheap eastern European imports generally.

The Sofia government, which has just survived an opposition attempt to force a dissolution of parliament and early elections, hopes the Council of Ministers will finally approve the trade agreement at its next session in Brussels on July 19.

Tough talking taints EC-Russian 'partnership' accord

Moscow's interpretation of Gatt rulebook is central to the trade negotiations, writes Lionel Barber

SIR Leon Brittan, the EC's chief trade negotiator, will not forget his trip to Moscow last month in a hurry. During tense bargaining, Sir Leon professed astonishment that his Russian hosts were proving so obstinate.

After all, the Community had made similar proposals to Guatemala regarding the new EC banana regime, without a murmur of protest.

"Russia," thundered Mr Boris Yeltsin, president of the Russian federation, "is not Guatemala."

EC officials stress that Sir Leon had no intention of suggesting that Russia had become a banana republic; but last month's exchange with Mr Yeltsin confirms that the EC's effort to forge a new trade and political agreement with Rus-

sia has run into difficulty. The EC's offer of a "partnership agreement" goes back to 1989 when the Twelve wanted to encourage economic and political reform in the former Soviet Union. Today, the idea is to strengthen democracy in Russia with the main incentive being the "long-term goal" of a free trade area with the Community.

In Russian eyes, the EC is a more important trading partner than the US or Japan. Last year, Russia accounted for an estimated 70 per cent of the former Soviet Union's \$4.5bn trade surplus with the EC.

Yet despite the steady two-way trade flow, the EC remains unsure of how to deal with Russia's transition to a market economy and how to fit a new approach into a comprehensive policy toward the former Soviet Union, where cen-

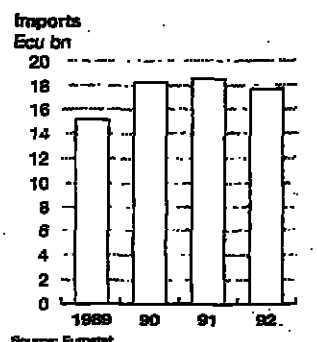
tral authority in Moscow is declining and new republics are clamouring for attention.

The central difficulty in the EC-Russia talks stems from Russian demands for the same treatment which the Community gives members of the General Agreement on Tariffs and Trade.

In concrete terms, Mr Yeltsin wants free movement of goods, services, capital (with some reservations), and persons. But the EC says "GATT treatment" is out of the question until it establishes a market economy.

As Sir Leon explained, Russia still has a long way to go. Its domestic energy prices are artificially low because of state subsidies; Russian enterprises still do not know what their costs are; and Russia's recent application to join GATT, while welcomed in Brussels, will take a long time to process.

EC trade with the former Soviet Union



Source: European Commission

The result is that the EC is insisting on a special "safeguard" clause which would apply until Russia fully complies with GATT rules. This would allow Brussels wide discretion to block imports it considered to fall in the category

of "dumping", particularly in sensitive sectors such as aluminium, steel and textiles.

The Russians argue that this clause is much harsher than the retaliation allowed under GATT rules - and likely to deter foreign investment in potential

hard-currency earning export industries.

In short, Mr Yeltsin feels the EC is treating Russia as a "state trading" country such as China and North Korea, without recognition of its democratic reforms. As Brussels has discovered, the Russians have not been shy about saying "No", nor has the fall of communism blunted their negotiating skills.

The debate over "GATT treatment" touches on Russian pride; but a good deal of self-interest is also at stake. EC officials say Russia is pressing for greater market access for its exports of low-price uranium and it wants provisions for greater freedom of movement of people so that businessmen do not have to waste time on visa applications.

In the field of human rights, the Community remains hope-

ful it can obtain satisfactory guarantees on human rights before signing a partnership agreement. But an early suggestion for a "suspension" clause under which the pact might be put on ice in the event of human rights abuses, has apparently been dropped after Russian objections.

Earlier this year, when Mr Yeltsin appeared to be in danger of losing a popular referendum, the EC sent a delegation to Moscow offering, for the first time, the prospect of a free trade area. "They just pocketed a major concession," says an EC official.

Nor has the EC always presented a united front. Two months ago, the Queen of Denmark issued an invitation to Mr Yeltsin to come to Copenhagen, ostensibly to celebrate 500 years of friendship between the Baltic near-neighbours.

The Danish Presidency of the EC described it as a "Danish initiative"; but EC officials believe the timing of the invitation was a less-than-subtle effort to accelerate the pace of negotiations and secure a deal for the June 21-22 summit. In the event, Mr Yeltsin did not turn up. With hindsight, some EC officials believe Sir Leon's tough stance in Moscow was intended to sink any chance of Mr Yeltsin "hijacking" the summit.

The challenge in the next few months will be to put the negotiations back on track and resolve the conundrum on GATT treatment. One option is to insert an "evolutionary" clause holding out the prospect of free trade if the Russia successfully follows GATT discipline. In this respect, Sir Leon's encounter may have helped both sides by removing false expectations about the size and scope of a future bilateral trade agreement.

Handwritten note in Arabic script: "ملاحظة: لا تقرأ"

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NEWS: UK

Producers restrain price rises

By Peter Marsh,
Economics Correspondent

INFLATIONARY pressures remain subdued, according to government figures released yesterday which show manufacturers increased prices only fractionally in June in spite of paying more for materials and fuel.

Prices of factory-made goods for domestic sale rose 0.1 per cent during June, the Central Statistical Office said. In the year to last month, the rise in prices was 4 per cent, the same as in the year to May.

Materials and fuel purchased by manufacturers increased in price 7.8 per cent in the 12 months to June, after 7.5 per cent in the year to May. Seasonally adjusted, these prices rose 0.3 per cent between May and June.

The figures confirm that the fall in sterling since last September's devaluation has yet to show up significantly in the prices that manufacturers are charging at the wholesale level. They indicate that in a climate of severe competition following the recession, manufacturers are striving to keep prices low, a goal helped by low wage settlements.

Manufactured goods excluding food, drink and tobacco

Scheme to boost employee share ownership 'failed'

A government scheme to boost share ownership among ordinary employees by allowing executives to buy share options at a discount has failed to achieve its objective, Incomes Data Services, the independent pay group, said yesterday.

Almost all the companies examined which had taken advantage of the discount for their executives had schemes for other groups of employees in place before the discount became available, IDS found.

Under a measure in the 1991 Budget, executives became eligible from January 1 last year to buy shares at up to 15 per cent below the market price. Until then, to qualify with the

Inland Revenue, the price paid when the option was exercised had to be no less than the market value of the shares when the option was granted.

The new discounts were conditional on the setting up of company-wide employee share schemes, IDS said. "The introduction of this substantial tax benefit was explicitly linked to a need to provide top executives with an incentive to spread share ownership to the shopfloor."

Research shows that only two of 28 companies that had issued discounted executive share options needed to set up a new all-employee scheme - 26 already had share schemes covering all employees.

A total of 108 separate options had been issued by the 28 companies, 41 of them by seven FT-SE 100 companies. The average value of the discounted options was £17,930, the difference between the market price on the day of grant and the option price.

IDS concludes that, while few companies have issued discounted executive options, many more have amended the rules of their schemes to allow for them, most of which already have all-employee share schemes. "For this reason, the growing use of discounted options is unlikely to further the government's stated aim of spreading share ownership to the shopfloor."

materials were offset by only subdued rises in prices of metals and other imported goods.

After devaluation, the year-on-year rise in prices of materials and fuels bought by manufacturers reached a high of 8.4 per cent in March. Since then, however, inflationary pressures on the input side have been relatively muted. In April the year-on-year increase in these prices was 7.2 per cent.

also showed little upward price movement in the past month.

These goods rose in price 0.1 per cent during June. The year-on-year rise of 2.6 per cent was the same as in the 12 months to May.

While the year-on-year increase in prices of all manufactured goods has edged up from the 3.5 per cent recorded in December, the measure for underlying inflation at the

wholesale level has been fairly stable. It registered 2.4 per cent in December and has stayed at 2.6 per cent since February.

In the year to last month, prices of petroleum products purchased by manufacturers increased 8.5 per cent. Prices of UK-produced food rose 12.9 per cent and imported food 10.5 per cent. However these substantial increases in the prices being paid for energy and

Shell denies cuts in exploration due to PRT

By Deborah Hargreaves

SHELL UK is scaling down its North Sea oil drilling programme and cutting jobs in its exploration department by between 20 per cent and 30 per cent.

The company denied yesterday this was as a result of the government's planned changes to Petroleum Revenue Taxes. "The PRT changes have underlined and given focus to what we were already looking at in the North Sea," it said.

An earlier memo sent to Shell employees referred to the fact that the PRT changes will increase exploration costs by a factor of four. This emphasises the need for cost-cutting measures in exploration. Shell has already begun a worldwide campaign to trim costs in an effort to improve profitability at a time of low oil prices.

The PRT changes which abolish tax relief on exploration drilling and cut the rate paid for existing fields from 75 per cent to 50 per cent, are due to become law in about a month.

Many oil companies have opposed the changes because they believe up to 30,000 job losses in the sector could result from the downturn in drilling. Shell has always publicly supported the changes by saying the downturn in exploration drilling would be offset by an increase in development work.

An official at Shell called the reference to PRT in the company's memo "rather unfortunate", but said the rest of the memo made clear the job cuts were due to long-term structural changes within the company.

The Treasury is believed to have contacted the company over its apparent change of tone over the PRT issue. The company stressed that its support for the new PRT rules was unchanged.

Shell's decision to reduce jobs is linked to the maturity of the North Sea and the declining number of exploration prospects.

Construction orders up 29%

OVERSEAS orders won by British construction companies rose by 29 per cent last year to £2.9bn, according to figures published yesterday by the Environment Department.

The increase over the £2.2bn of orders won in 1991 was due mainly to increased work won in North America and Hong Kong.

Mr John Gummer, environment secretary, said the rise in Far Eastern orders, in one of the world's growth regions for construction, was particularly encouraging.

Ministers urge fall-back position on Maastricht

By Philip Stephens
and Alison Smith

MR JOHN MAJOR was last night under pressure from European ministers in his government to declare he was ready if necessary to risk the imposition in Britain of the social chapter rather than abandon ratification of the Maastricht treaty.

The mobilisation of the Eurosceptics within the Conservative party was reflected also in the counter-attack by heavyweights against the decision of Lady Thatcher, the former prime minister, to vote for a referendum on Maastricht when the issue is put to the House of Lords tomorrow.

Downing Street refused to comment on mounting speculation at Westminster that a combination of opposition parties and rebellious Eurosceptics could defeat the government in a House of Commons vote on the social chapter on July 26.

Eurosceptics described a government defeat as "a racing certainty", even if ministers managed to persuade Northern Ireland unionist MPs not to vote with the opposition. The Conservative government has a majority of 18.

Mr Kenneth Clarke, chancellor of the exchequer, was said to be among the ministers who want the prime minister to make it clear in advance of the vote that whatever the outcome the government would press ahead with ratification.

The ministers hope that such a threat will dissuade the Eurosceptics from voting for the inclusion of the social chapter in the belief that Mr Major would then abandon the treaty.

But Mr Clarke is said to be among a majority who believe that even if the government is defeated it should press ahead with ratification. Initially the government could ignore the Commons vote - as it is technically outside the ratification legislation - but it might then be open to a legal challenge to the social chapter opt-out.

The pro-European majority in the cabinet argues that if the UK were then forced to abandon the opt-out, the blame would fall directly on the Eurosceptics.

Ways of minimising the controversy of ratifying the treaty as negotiated, even after a Commons defeat, are at the heart of contingency plans being drawn up within government. One proposal is for a

motion of confidence to be taken immediately after any defeat.

The confidence motion would bring back into line some at least of the rebels, and might be framed to include an endorsement of the government's stance on the social chapter.

Sir Nicholas Lyell, the attorney-general, is said to have advised colleagues that ratifying the treaty in spite of a defeat would not worsen the government's position in the threatened Euro-sceptic attempt to seek judicial review of what the government has done so far in its pursuit of ratification.

Conservative sensitivities about Maastricht were underlined as former cabinet ministers accused Lady Thatcher of disloyalty, even though the government is confident that her call for a referendum will be defeated.

Lord Howe, the former chancellor and foreign secretary, said that if her predecessor had led an organised rebellion during her own premiership, then she would have regarded it as "pretty disloyal".

He gave a warning that to embark on a referendum campaign would be "total folly".

Legal disputes at Lloyd's threaten reform plans

By Richard Lapper

FRESH EFFORTS to win an out-of-court settlement to legal disputes at Lloyd's of London are running into difficulties, casting a shadow over efforts to restore profitability at the insurance market.

Seventy-one groups of loss-making Names - the individuals who back underwriting at the insurance market - were invited last week to submit statements to Sir Michael Kerr, the former high court judge who is chairing a panel set up to assess Names' claims.

Names claim that a deadline of July 23 is unrealistic and will not allow them to consult with legal counsel. Mr David Tipplady, a solicitor representing four groups of Names, said: "It is impossible."

Mr Tipplady is pressing the panel to put back its deadline to mid-August. But Mr Bill Knight, of solicitors Simmons & Simmons, which is working with the panel, stressed that the deadline is a "hard" one. He said the panel will be unable to report to Lloyd's by the autumn unless it sticks to this deadline.

Lloyd's, which last month reported its third successive year of record losses, is keen to settle litigation with Names in order to restore confidence as it seeks to attract fresh capital. Separately Mr Michael Deeny, chairman of the Gooda Walker Names Action group, the biggest group of loss-making Names, says his group will meet the deadline but that "smaller less well-financed groups" will be at a disadvantage. Mr Deeny who is also a member of a second panel which is examining the potential financial resources available for a settlement, says he is "sceptical" about its chances of success.

He says the errors and omissions insurers which cover Lloyd's agencies against

awards for negligence - are only prepared to consider a settlement which would not "trigger their own reinsurance protections". Since E&O insurers - themselves Lloyd's syndicates - usually buy reinsurance, this would mean that the amount available to settle claims would be limited.

"At the end of the day all the arm twisting by the Lloyd's management hasn't got anywhere. The only solution is to get a court judgment and put thirty to forty agencies into liquidation," said Mr Deeny.

Names on syndicates which have sustained heavy losses from asbestos will submit evidence to Sir Michael Kerr's panel alleging that the managers of several syndicates specialising in long-tail business should have left accounts of their 1979 year open. Long-tail syndicates underwrite business in which claims typically emerge many years after policies were underwritten.



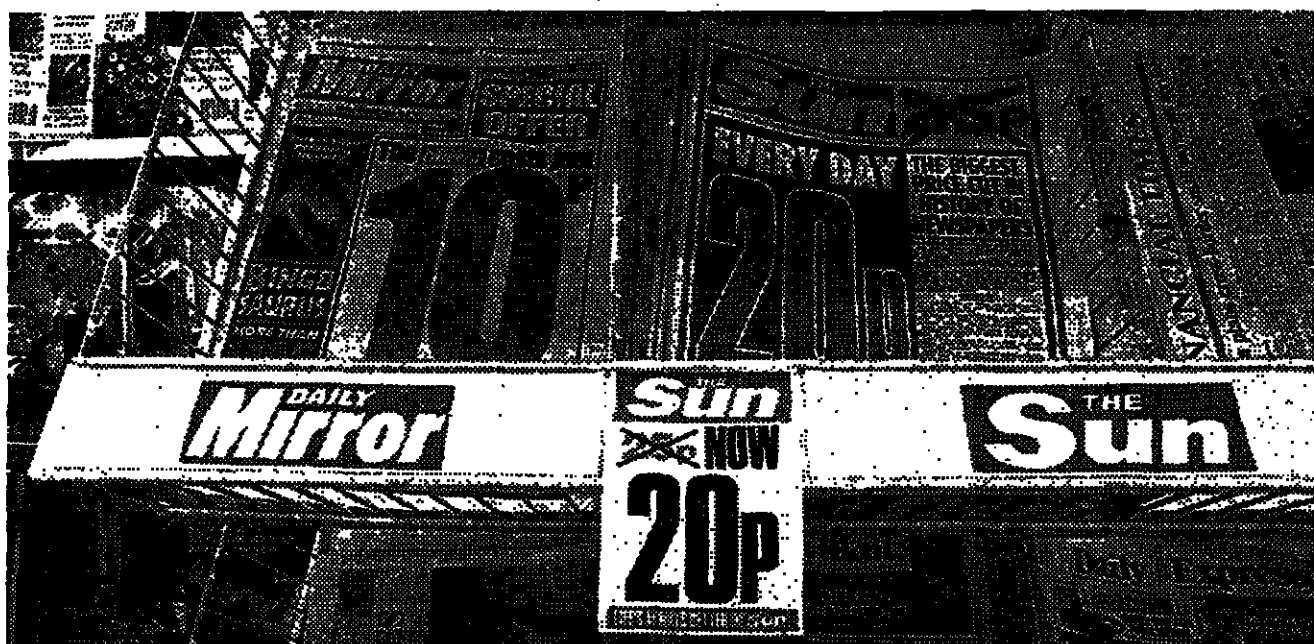
Former heavyweight boxing champion Henry Cooper (above) sold his three Lonsdale Belts at auction yesterday for £22,000. Cooper, 59, was forced to sell the belts to meet losses at Lloyd's of London, where he was a Name.

The belts were sold at a Sotheby's sale of sporting memorabilia held at Kent County Cricket Club's ground in Canterbury. They had been expected to make £70,000. Asked what he would do with the cash, he said he would invest it "but not at Lloyd's".

Cooper stopped underwriting in 1985 and resigned from the market in 1989. He was a member of a number of syndicates, including at least one managed by the Oakeley Vaughan agency, which made heavy losses in the early 1980s.

He is the only boxer to have won three of the belts which are presented after three successful British title fights. The belts system was inaugurated by the 5th Earl of Lonsdale in 1909 to provide an incentive for boxers in an age of restricted purses.

Cooper won the heavyweight crown in January 1959 beating Brian London at Earls Court, west London. He went on to make eight successful defences, but gave up the title in May 1969.



Shock! Horror! in the tabloid price wars

THE FIRST day of the summer tabloid newspaper circulation war saw the Daily Mirror, priced 10p, selling out. The Sun - at 20p - saw a rise in sales, while the Daily Star - unchanged at 25p - was seriously squeezed, writes Raymond Snoddy.

Wholesalers said the price cuts and the attendant publicity increased yesterday's overall sale of mass-market newspapers.

The Sun's promotional campaign was clearly hit by the Daily Mirror's speller of charging 10p for one day's issue. The Mirror, which normally sells about 2.7m copies, claimed victory, saying it had sold about 500,000 extra - an increase of about 20 per cent. It is due to return to its usual 27p cover price today, while The Sun intends to stick with its 5p price cut for the rest of the summer.

The Sun, which dismissed the Daily Mirror's move as a "one-day gimmick", said it had sold between 275,000 and 280,000 extra copies, compared with the usual figure of about 3.5m papers a day.

News International, which owns The Sun, said it was happy with the results so far and said the picture would be clearer by the middle of the week. The Daily Star is estimated to have lost as much as 10 per cent of its normal daily sale of about 800,000.

As the circulation battle raged, Mr Kelvin MacKenzie, editor of The Sun, and Mr David Banks, his counterpart at the Daily Mirror, traded insults.

Mr Banks ridiculed The Sun's claim that the price cut was designed to beat the recession. He suggested that The Sun had

contributed to the recession by "single-handedly" ensuring four Conservative election wins.

Mr MacKenzie replied the only reason The Mirror was not cutting its price was that its senior executives had such enormous share options they didn't want to see the share price go down.

Mirror Group Newspapers shares closed 14p down yesterday at 153p and News International shares closed down 1p at 215p. There was scepticism in the newspaper industry about the wisdom of the price cuts.

"Midsummer madness", said one specialist who asked not to be named. "The real question is how many of the extra sales will be retained when the price goes up again."

Japanese sales boost Rover's market share

By John Griffiths

ROVER GROUP was the only major vehicle maker to increase sales during the first half of 1993 in continental Europe's shrinking new car market.

A 44 per cent sales rise in Japan - where the new car market is also suffering the first notable reverse in its his-

tory - has also helped the British Aerospace subsidiary increase its overall sales by 13 per cent in the six months.

Rover's sharp Japanese sales rise is from a small base - the increase was from 4,300 to 6,200.

But Rover executives see it as cause for further celebration following Honda's decision to sell the Land Rover Discovery

model in Japan badged as a Honda - the first time a western manufacturer's model has received such an endorsement.

Helped by sharp increases in other export markets outside Europe, Rover's total sales in the first half rose to 202,100 from 178,900 in the same period a year ago.

UK sales were up 14 per cent, at 119,700, and total export

sales were 12 per cent higher at 82,400.

The 5 per cent increase in continental sales, to 65,500, came in the face of estimates from the European Automobile Manufacturers Association last week that the combined total sales in 17 west European markets were down by 17.5 per cent in the first half.

Total export sales outside

Japan were up 54 per cent, to 16,900 units.

Despite the collapse in the German new car market, where sales were down more than 20 per cent in the first half, Rover increased its sales in Germany by 6 per cent and is planning to double the size of its dealer network in the country over the next two years.

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Going for gold

In the 19th century gold rushes, prospectors sought the seductive metal by trudging across rough terrain and studying streams and rocks for signs of hidden wealth.

Today, mining companies have a much more sophisticated array of data to guide them to gold-bearing deposits. They can assemble a mass of information, by land or air, on a region's magnetic, gravitational, geological and chemical peculiarities and then work out where to start drilling.

But this is where the difficulties come in. Drilling holes is expensive - about \$50,000 (£33,000) a time, including laboratory analysis - and there are no rules on how to use all the data to pinpoint potential mines. However, if a computer program devised by a Sussex University scientist is taken up widely, much of the uncertainty and cost could be reduced.

Lecturer Peter Williams' computer neural network program - such programs recognise patterns and trends among a dense mass of data rather than make complex calculations - has been tried successfully by a big US mining company. Using magnetic data from 171 drillings, it was tested on two sites. It predicted accurately that one would yield gold and the other (thought to have potential after 36 test drillings) would not.

It has also been used in south-east Asia and attracted interest from an Australian mining group. Williams says his program can be used for small or large areas and even whole countries where the magnetic and gravitational data is available. He has developed his program over three years, but he does not claim it will replace present methods of looking for gold.

"It is another tool in the toolbox," he says modestly. "It tilts the odds in favour of the prospector."

Andrew Fisher

It would probably never occur to most drivers of non-automatic cars that changing gear might be possible by pressing a button instead of having to reach down and move a lever. Imagine being able to operate the gears as easily as turning on the lights or windscreen wipers.

The technology is there, but has yet to be put into widely available form. However, a start is being made by Prodrive, the UK motor sport engineering concern which prepares some of the world's leading race and rally cars. It has developed a road-going version of the press-button, semi-automatic gearbox hitherto confined to leading grand prix teams and the world championship rally cars Prodrive operates for Subaru of Japan.

Although the system will make its off-track debut this year in one of Italy's best-known makes of exotic sports car, it could be added to almost any car's conventional manual gearbox. "There is no reason why it should not be cheaper than, say, power steering," according to David Lapworth, managing director of Prodrive's engineering services subsidiary.

In its current road-going form, the system is being tested by Prodrive in a Subaru Legacy saloon. No modifications have been made to the car's conventional gearbox. Instead, the normal clutch operating cylinder is supplemented by an actuating mechanism whose operation is managed by an electronic control unit (ECU) and an air tank and small compressors located remotely - in the Legacy's case, in the boot.

The actuating unit is about a foot long. Along with the valve system it is small enough to have been installed in the Legacy's transmission tunnel without modifying the bodywork.

The driver selects gears by touching buttons on the upper and lower surfaces of the steering wheel. Specific buttons do not select specific gears. Instead, any button on the upper surface takes the car up a gear, and any button on the lower surface takes it down. Repeated pressing takes the car sequentially up or down through the gears.

The clever bit lies in what the ECU does on receiving a gear change instruction - relayed electronically from the driver. For upshifts, the driver simply presses the button without either lifting his foot from the accelerator pedal or operating the clutch pedal. The ECU throttles back the engine at the same time as ordering the compressor to operate the clutch. The resultant upshift is as fast as any achievable manually by a Nigel Mansell or Ayrton Senna.

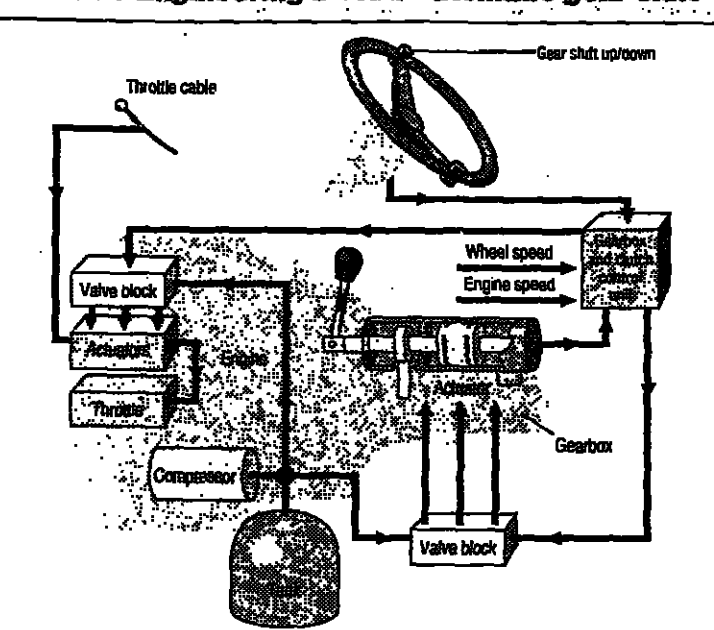
The principles are the same for downshifts - except that the ECU prevents the engine being strained through over-revving, should the driver seek to change down too early. In this event, the ECU is capable of both "blipping" the accelerator and delaying the clutch operation until gear and engine speeds are compatible.

What are the benefits? In the area of performance motoring, gears can be changed with optimum efficiency while preserving maximum control over the car by keeping both hands on the steering wheel. Clutch wear is also minimised and manual operation of the clutch is required only when starting or stopping.

Almost any car could dispense with its gear lever, writes John Griffiths

Drivers on the button

Prodrive Engineering's semi-automatic gear shift



Prodrive's Legacy test model retains both its clutch pedal and the conventional gear lever - a function of its close kinship to the rally cars, which can revert to manual clutch and gear changing as a competition "fail safe". On the back roads near Prodrive's Banbury, Oxfordshire, headquarters, it is disconcerting to have the gearshift seemingly operating itself while the driver uses the press button system. But, as Lapworth stresses, neither clutch pedal

nor gear lever need be retained for non-sporting applications.

Preoccupation with competition - the bulk of Prodrive's business - meant the company could not start on a road version until early last year. The development programme has three phases:

First is the Legacy system, fitted as an aid to enthusiastic driving. Second is a system which selects the gears itself at the appropriate moment, depending on accelerator position - in effect a fully automatic gearbox. This system also allows drive-away from rest.

This second phase still involves adding equipment to existing transmissions, and would be applicable in areas such as cheaply converting ordinary cars for use by the disabled.

But the logical final phase, points out Lapworth, would be for car makers to manufacture gearboxes specially designed for the system. The unit cost of these could be much lower than for conventional manual gearboxes because - thanks

to the "autoshift" ensuring that gear and engine speeds are compatible during changes - synchromesh and all its complicated cones and other components could be dispensed with.

There are rival transmissions, however, which their proponents might argue are a still more sophisticated answer to the average motorist's needs. Chief among these is the continuously variable transmission (CVT). Already fitted to some Ford, Fiat, Volvo, Rover Group and even Subaru models, the CVT provides an infinitely variable number of gear ratios by means of steel drive belts working around expandable pulleys.

The theory of the CVT is that the driver depresses the accelerator according to whether he wants maximum or mild acceleration, or a high or low cruising speed. The engine spins up to the required number of revolutions needed to meet these needs with maximum efficiency - and the transmission accelerates the car in the most efficient way to "catch up" with the accelerator setting, and subsequently cruises the vehicle at the most economical engine speed.

The proclaimed advantage of the CVT is that it allows the engine to operate in its most efficient revolution band. The driver has to do no more than engage forward or reverse; the energy-sapping losses caused by the hydraulic torque converter of a conventional automatic transmission - which typically produced fuel consumption 15 per cent worse than a manual as well as weakening performance - are largely absent.

Lapworth acknowledges that the CVT is a desirable transmission. However, it costs more than a conventional automatic transmission - and still has more inherent energy losses than a manual transmission.

"It will become a better proposition if and when a car maker produces both a CVT and an engine which are specifically designed to work together," says Lapworth. "But if you had to raise them in cold energy efficiency terms, on a scale of one to 10, the manual would be at 10, fully developed CVT/engine/transmission at nine and the existing conventional automatic at six or seven."

"And if you accept that you don't need synchromesh in our type of transmission, you could pack in six or seven gear ratios in the same space, so that for most drivers you would have something very close to a CVT anyway."

Although the autoshift is currently Prodrive's only serious road car project, Lapworth says there is much potential for applying motor sport-based technology on a wider front - "cars are full of things hydraulic and mechanical which could be better controlled", he says.

Technically Speaking

Multimedia in handcuffs

By Tom Foremski



Multimedia technology has the potential to spawn large new markets in entertainment and education, but a battle between copyright holders and multimedia publishers threatens to obstruct the emerging market.

Multimedia developers see great potential in the use of CD-ROM discs to store thousands of audio, video, graphics and text clips. Organised as an interactive encyclopedia, adventure game or as a multimedia history of Christopher Columbus, for example, they become powerful educational and reference tools, allowing users to steer through enormous amounts of information easily and quickly.

But developers of such applications complain that copyright holders are asking large fees for the use of small snippets of existing audio or video from tape and film libraries and that the copyright licensing process is complex and time consuming.

In turn, copyright holders are worried about the integrity of their work, which when transformed into digital form can very easily be copied or modified. Writers, film-makers, artists and photographers fear they might lose control of their works and their ability to collect future royalties.

The US Office of Technology Assessment has recognised the problem. In a report issued last year, it warned that the development of multimedia programs could be hurt by current copyright regulations that are not well suited to the new technologies.

Multimedia title developers say they are willing to pay for copyright clearances, but simply locating copyright holders is a big problem. Warner New Media, for example, when developing a multimedia title on the Berlin Wall, wanted to use a clip from the musical film West Side Story. This involved obtaining and paying for copyright clearance from the film company, the musicians, the music composer, the actors and the writers. But Warner missed a copyright, held by the choreographer, and could not use the clip.

One loophole some multimedia developers have successfully used is the "fair use" provision of US copyright law. This allows use of a copyrighted work "for purposes such as criticism, comment, news reporting, teaching, including multiple copies for classroom use, scholarship, or research".

However, US courts have interpreted fair use in unpredictable ways. Last year, for example, a US federal court ruled against Texaco which had argued that in photocopying scientific papers, it was protected from copyright infringement allegations since the papers were used for research.

With fair use vaguely defined by US courts, many multimedia applications developers are looking for copyright-free material. The largest source of copyright-free text is Project Gutenberg. It offers 30 copyright-free publications in digital form, known as "etexts". These include classic books such as Alice in Wonderland and Peter Pan. Michael Hart, founder of Project Gutenberg, says it will offer 10,000 etexts by the end of the decade.

Multimedia title developers can also turn to a growing number of CD-ROM disks full of music clips, photographs and video footage, all available without copyright fees.

None the less, copyright-free or public domain material is a limited resource. A copyright clearance mechanism is needed that allows copyright holders to tap into the potentially lucrative multimedia applications market without surrendering control over their work. Multimedia title producers, in turn, need an easy way to reach copyright holders and negotiate copyright clearance fees.

One solution could be the creation of copyright clearance centres that would represent the works of artists, musicians, photographers, video producers and authors. Such centres would allow multimedia developers to shop for content and pay a reasonable fee for the material used. The benefits of such a system would be to remove roadblocks to a new industry that could provide consumers with a wide range of multimedia titles.

WHERE TO WATCH THE FT THIS WEEK

MONDAY

07:45 European Business Today† - Daily news, company results, market moves and boardroom interviews.
12:30 West of Moscow †
22:30 European Business Today†

TUESDAY

07:45 European Business Today† (22:30)
13:15 West of Moscow* (18:15)
08:15 FT Reports* (15:45, 23:45)

WEDNESDAY

07:45 European Business Today† (22:30)
21:30 Financial Times Reports† Europe's Employment Agencies. Why is the private sector handcuffed?

All times are CET
KEY • Sky News † Super Channel
* EuroNews

THURSDAY

07:45 European Business Today† (22:30)
08:15 West of Moscow* (15:45, 23:45)
13:15 FT Reports* (18:15)
20:00 Financial Times Reports • (01:00, 05:15)

FRIDAY

07:45 European Business Today† (22:30)

SATURDAY

05:30 Financial Times Reports •
08:30 Financial Times Reports †
11:15 West of Moscow • "Bolshevik Biscuit".... A tale of Russian privatisation in action. (22:15, 02:15, 05:15)

SUNDAY

13:00 Financial Times Reports • (20:00)
19:00 Financial Times Reports †
22:30 West of Moscow †

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6 65+

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MANAGEMENT: THE GROWING BUSINESS

Charles Batchelor continues his series answering questions on the European single market

Second time around

In the US, failure is often regarded as a learning experience. In the UK even success is no guarantee a businessman can raise finance.

In contrast with the US, British venture capitalists make very little use of "second time entrepreneurs," businessmen and women who have sold one successful venture and want to move on to a second, according to a study* by the Centre for Management Buy-Out Research.

Nearly three-quarters of venture capitalists polled said they would prefer to finance an entrepreneur or a manager who had played a leading role in a previous venture. But only 23 per cent had used a team leader from one of their own investments again. And while 53 per cent used a team leader previously backed by another venture firm these two figures overlapped and total use, as a share of deals completed, was low.

The main reason given by venture capitalists was that they could not find suitable candidates. The entrepreneur's experience might be in a different sector or in a much smaller or larger company. Venture capitalists were suspicious that someone who had made one fortune would be insufficiently motivated to do it again.

It also emerged that venture capitalists did not actively pursue entrepreneurs who had sold out. Only 17 per cent of venture firms polled evaluated their successful entrepreneurs.

But the venture capitalists were not to blame alone. Many entrepreneurs were reluctant to go a second round with the same venture capitalist who had backed them the first time. Also, having made one fortune, the entrepreneur might have less need of venture funds to get started a second time.

*Venture Capitalists and Second Time Entrepreneurs. M. Wright and K. Robbie. Centre for Management Buy-Out Research. Nottingham University, Nottingham NG7 2RD. Tel: 0602 515494. 27 pages. £25.

CB

Understanding the issues

The Growing Business Page's Single Market Q&A series is intended to allow readers to raise issues prompted by the formal launch of the single European market on January 1, 1993.

In theory the barriers have come down in Europe, but in practice doing business across borders can be complex and time consuming.

Merits of a pan-European title

Q: In your last Single Market Q&A you explained how EC legislation on the compatibility of professional qualifications would allow a British chartered engineer to register in Germany.

A: We are consulting civil and structural engineers and are currently evaluating a number of projects in Germany. A few years ago all chartered engineers were encouraged to register as European Engineers and were rewarded with the qualification Eur-Ing. Does this qualification carry any real weight? Is it sufficient to guarantee acceptance on the official list of approved engineers at the regional chambers of architects (Architektenkammer).

A: The Eur-Ing title is a pan-European title for chartered engineers operating in Europe, though it is not covered by EC legislation on the freedom of establishment of professionals (89/48/EEC). It confers no extra privileges but its value lies in the fact that it is a readily recognisable professional qualification Europe-wide.

More than 15,000 professional engineers in Europe currently hold the title, with some 300 applying every month.

Although the Eur-Ing title may only be obtained by qualified chartered engineers it is not sufficient to guarantee acceptance on the official list of approved engineers at the regional chambers of architects.

VAT reporting requirements queried

Q: I have recently set up a business and will shortly start exporting to other EC member states. What are the present VAT reporting requirements in the UK?

A: UK VAT registered businesses are required to provide Customs and Excise with EC Sales Lists

(ESLS), on a quarterly basis, for all sales to other VAT registered businesses in the Community. These lists itemise sales by values and VAT registration numbers of buyers. They are required by Customs at the end of each calendar quarter (March, June, September and December).

However, small businesses with an annual turnover of less than £82,000 and sales not exceeding £11,500 in the EC may be exempted from providing ESLS. This is discretionary and you should seek guidance from your Customs office.

Businesses with exports exceeding £135,000 a year to the EC must also provide Supplementary Sales Declarations (SSDs) on a calendar month basis. These reports must list a minimum of eight items of transaction data, for example, delivery term and mode of transport, for each sale.

Importers who exceed the £135,000 threshold for EC purchases must also provide SSDs, the information for which is used to compile European Community trade statistics known as Intrastats.

A green approach to labelling

Q: I have heard there is a label which states that my products are environmentally sound. How can I obtain such a label and what are the objectives of the scheme?

A: The label to which you refer is the EC Ecolabel which demonstrates that your product has the minimum adverse impact on the environment. To apply for an Ecolabel contact one of the national organisations set up to administer the scheme. In the UK it is UK Ecolabelling Board, 7th Floor, Eastbury House, 30-34 Albert Embankment, London SE1 7TL. Tel: 071 820 1199. Fax: 071 820 1104.

The purpose of the voluntary scheme is to promote the design, production, marketing and use of products that have the least impact on the environment. The Ecolabel also aims to encourage the production of more environmentally benign products.

EC working groups have started to devise Ecolabelling criteria for a range of products, including washing machines, based on their environmental performance throughout their life cycle.

Once the Ecolabelling organisa-



Help with language courses

Q: I am a UK citizen living and working in Germany and would like to enrol on a German language course. Can I apply for a grant, loan or tax relief on such a course?

A: There are no grants, loans or tax relief available for individuals wanting to pursue language training in Germany. But there are regional promotion programmes designed to help German companies prepare and develop their employees for working in the single market.

These programmes do not exist in every Land and the conditions and benefits vary according to the development strategies of the region.

On a Community level, the increased trade, mobility and cultural exchange which has resulted from the development of the internal market has led to the introduction of the Lingua programme. This is an EC initiative which promotes a more widespread understanding and use of the Community languages. It is not a programme targeted directly at business, although the aim is to promote foreign language skills in the workforce.

For further information contact The UK Lingua Unit, Seymour Mews House, Seymour Mews, London W1H 9PE. Tel: 071 725 9493 Fax: 071 224 1906. The European headquarters of the programme is at Bureau Lingua, 10 rue du Commerce, B-1040 Brussels. Tel: 322 511 42 18 Fax: 322 511 43 76.

Previous features in this series appeared on June 1, May 4 and March 9.

■ If you have any queries relating to doing business in Europe or to the changes brought about by the creation of the single European market, please write or fax the address below. We can only print a selection of letters received and cannot reply individually.

Charles Batchelor, Single Market Q&A, Financial Times, Number One Southwark Bridge, London SE1 9HL. Fax: 071 873 3833.

This feature has been compiled with the assistance of the European Information Centre of the London Chamber of Commerce.

Focus on bank charges

Does it make sense to shop around among banks for a good deal? A trial carried out by Business Money, a new monthly newsletter,* reveals significant differences between the charges quoted by a range of banks.

The 17 banks approached provided quotes ranging from £17 to £1,400 to manage an account for a year. Business Money asked the banks to quote for a customer expecting to write more than £100,000 worth of cheques a year, paying in 300 cheques and £2,000 in cash a month, and maintaining an average credit balance of £3,000.

The newsletter is based in Street, Somerset and stipulated the account must be maintained elsewhere, to prevent discrimination against banks without a local branch. Many businesses prefer a local contact point but others with accounts in credit often never visit their branch, says Robert Lefroy, editor and a former banker with 28 years experience.

The £17 quote came from Allied Trust, a London-based bank with no branch network; the £1,400 proposal from National Westminster.

Other low quotes came from the Coop Bank (£750, though this included six months free banking) and Clydesdale Bank (£911). Offers from the other main clearers were £1,151 from Lloyds and £1,258 from Barclays while Midland refused to quote, citing, according to Lefroy, its "aggressive new policy."

Quotes of between £1,100 and £1,200 came from Allied Irish, Bank of Scotland, Royal Bank of Scotland and Ulster Bank.

One lesson to emerge was it might make sense for companies to split their banking, putting cash deposits through Girobank and other business through low-cost operations, suggests Lefroy.

*Provides listings of loan costs across a range of business sectors and details of leasing and factoring charges. Annual subscription £59. PO Box 1685, Street, Somerset, BA6 9PE. Tel: 0458 48207.

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Belgian pension rules discriminate



A Belgian law which laid down different methods for calculating pension payments depending on the sex of the recipient was declared to be discriminatory and contrary to European Community law despite the fact that the retirement age of 60 was the same for men and women.

The case arose in the context of a preliminary reference from the Antwerp employment tribunal. Under Belgian law, pension rights were calculated on the basis of the number of years worked; this could not be higher than 45 for a man and 40 for a woman. The amount of the pension was fixed on the basis of a percentage of the individual's earnings.

However, for the years worked before 1955, the amount fixed was a standard sum. The male applicant was given his pension on the basis of 45 years' work, nine of which were pre-1955. Had the applicant been female only four of the "standard" years would have been taken into account and the recipient would have received a higher pension.

The court held that EC social security provisions prohibited discrimination based on the sex of the individual when calculating benefits. The system under Belgian law was discriminatory on this basis. The court also held that the Belgian system did not fall within the exceptions laid down in the relevant EC provisions.

The court reiterated that the article in the EC directive laying down the principle of non-discrimination was of direct effect; and it had been so from the date set down for its implementation into national law. People discriminated against, it said, had the right to be treated the same as those who were at present favoured by national legislation.

C-154/92: *Rémi van Cant v Rijksdienst voor pensioenen*, ECJ, July 1 1993

Parallel imports and the EC-Austria Free Trade Agreement

In a recent case, the Court was requested by a national court in Germany to give a preliminary ruling on the issue of parallel

imports from Austria to Germany. This required the interpretation of certain provisions in the EC-Austria Free Trade Agreement.

The case concerned parallel imports of a medicine from Austria to Germany. The medicine had been made and sold in Germany. It was also exported by the manufacturer to Austria, where it was sold by the manufacturer's Austrian company.

A German parallel importer wanted to sell the same product in Germany by importing it from Austria. The only difference between the imported product and the domestic one was that the former would display a label with the importer's name and address.

The importer sought permission for sale in Germany from the domestic authorities. Documents showing that the product was identical to the domestic product were lodged in support of the application. Under German law, it was also necessary to produce evidence on the manufacture of the product and quality control methods. The importer referred to the manufacturer's evidence on these points, which had been lodged with the national authorities.

Authorisation was refused on the grounds that insufficient evidence had been produced. The matter was brought before a Berlin court, from where a reference was sent to the ECJ.

The ECJ held that the provisions relating to the free movement of goods in the EC-Austria Free Trade Agreement, which are identical to the corresponding provisions in the EC treaty, should be construed as prohibiting such action by the national authorities.

The British and Italian governments argued that, although the refusal to grant the relevant authorisation was contrary to the provisions in the EC treaty, the same could not be said when interpreting the provisions in the free trade agreement. This was because the free trade agreement did not envisage legislative harmonisation measures in the pharmaceutical sector. This argument was rejected by the ECJ.

C-207/91: *Eurim-Pharm GmbH v Bundesgesundheitsamt*, ECJ, July 1 1993

BRICK COURT CHAMBERS, BRUSSELS

An experiment in marrying China's socialist civil law system to Hong Kong's version of UK common law is nearing completion, with the listing this month of the first mainland Chinese state-controlled company on the Hong Kong Stock Exchange.

Tsingtao Brewery, shares in which will be traded from this Thursday, is the first of nine companies being brought to market. Incorporated in Tsingtao's articles of association is an attempt to codify common law on matters such as the role and responsibilities of directors, protection of minorities, and accounting standards.

Corporate law in China is still in its infancy. It was only in May last year that the Chinese government published a set of regulations governing companies, known as the Standard Opinion on Joint Stock Companies. The Standard Opinion applies to mainland Chinese companies which have issued, or plan to issue, shares to employees, the public or both. It is a interim set of regulations that has the force of law, and will stand until officials have drafted a comprehensive companies law - currently undergoing its fourth revision.

A Hong Kong Stock Exchange team, led by Mr Anthony Neoh, QC, and incorporating outside legal experts and representatives from the Securities and Futures Commission, the colony's corporate watchdog, worked for nearly a year with mainland Chinese counterparts on the terms under which the Hong Kong exchange would accept mainland company listing. The Hong Kong exchange and the SFC were concerned to ensure that minority shareholders in Chinese companies would have a level of investor protection comparable with that of shareholders in companies registered in Hong Kong. Hong Kong companies are subject to the colony's Companies Ordinance, stock exchange listing rules and regulation by the SFC.

The most difficult issue they had to overcome was the difference between Hong Kong and Chinese law. In China, law is found only in written codes. Case law, where it exists, is used merely for reference. By contrast, Hong Kong's law, as with other common law jurisdictions, is based on statute and principles developed in the courts, and so is found only in case law.

"The whole law on the fiduciary responsibilities of directors or the rights of different classes of shareholders has been built up by our courts since the 1850s and 1860s," says Mr Neoh. To ensure that mainland Chinese directors and managers would be subject to the same legal constraints as their counterparts in Hong Kong, we had to go back to the cases to extract the

Simon Holberton on the challenges posed by listing mainland companies on Hong Kong's stock exchange

Solutions to Chinese puzzle



Helping hand: Hong Kong Stock Exchange wanted to protect shareholders

principles", he adds.

The mainland companies are issuing class "H" shares in Hong Kong. These shares differ legally from class "A" shares, which will be issued to mainland shareholders, much in the same way as ordinary shares differ from preference shares. The question of class rights - between holders of "H" and "A" shares - was solved by adopting Canada's codification of common law on the subject, as enshrined in its Business Corporations Act.

Other factors, such as the duties and obligations of directors, were derived from Hong Kong case law. China's Standard Opinion says the duty of directors is to act "honestly and sincerely"; it is silent on a director's obligations. The articles of association of Tsingtao incorporate standard "duties and obligations" familiar to any western director, such as: "To observe obligations of a fiduciary not to place himself in a position where his duty and his interest may conflict."

Another potential difficulty was shareholders' right of redress in the courts. This was solved by incorpo-

rating in the articles of association a provision for disputes to be adjudicated - at the choice of the claimant - in either the China International Economic and Trade Arbitration Commission or the Hong Kong International Arbitration Centre. Judgments in either tribunal are enforceable in either jurisdiction, because China and the UK (and by extension Hong Kong) are party to the New York Convention for the Recognition and Enforcement of Arbitral Awards.

The mainland companies have also accepted that their directors can be sued personally. Under Hong Kong corporate law only the company can sue its directors. If a shareholder can prove oppression by a controlling shareholder, an individual can sue a director on behalf of other minority shareholders in what is known as a "derivative action".

A derivative action, however, is an unknown legal concept in China. So, through a series of interlocking contracts signed by the directors and the company, shareholders in the nine state companies will be

able to sue a director personally. Mr Neoh concedes that it is difficult to predict how this provision will develop, but says: "This provision will put pressure on non-defaulting directors to act against the defaulting director to avoid their being embroiled in a legal dispute."

The talks between the mainland Chinese and Hong Kong officials were facilitated by the fact that many of them had western legal training, says Mr Neoh. He says, for example: "I asked them what their conception of a limited company was. One senior official said a limited company was one where the company was liable only to the extent of its capital. Another, giving the correct answer, said a limited company meant shareholders were not liable for more than their initial subscription." At that moment, says Mr Neoh, one mainland official piped up: "Salomon against Salomon" - a reference to a US case from 1897 which established the limitations of liability of shareholders to their subscription of capital.

The initial Chinese confusion stemmed from the definition of a company in the Standard Opinion, says Mr Neoh. It says a shareholder "must, within the limits of his contribution, be responsible for the company's debts".

In spite of recent developments, modern law in China - only 14 years in the making - remains in a state of flux. It is a land where the rule of man has always prevailed over the rule of law. From imperial times to the present, the *obiter dicta* of the emperor or the Communist party chief has been accorded the force of law. In 1988, Mr Peng Zhen, a senior Communist party elder who, in UK legal terms, held the twin responsibilities of home secretary and Lord Chancellor, was asked if the law was more important than the Communist party. "I'm not very sure about that," Mr Peng said.

The codified common law written into the articles of association of the Chinese companies being listed in Hong Kong does not recognise the Communist party. Duties and obligations are framed solely in terms of a company's relationship with its owners.

Mr Neoh is cautiously optimistic. "We have spent a lot of time with these companies - I have visited three of them myself - and they are very keen to comply with our rules," he says. "There are two forces working in our direction: management have a boss to report to; and there is market discipline. Their share price will fall if they break the rules."

But he concedes he cannot forecast how successful the changes will be. "I can't predict anything, I'm just hoping. We should know within the next six months or so."

LEGAL BRIEFS



Regional firms compete with City of London

Large regional firms are competing increasingly for work that has traditionally been done by City of London law firms, according to the 1993 edition of *The Legal 500*, the latest edition of the clients' guide to the UK's top 500 law firms, which has just been published.

Regional firms have improved in quality terms, it says, and have proved very competitive on cost. During the recession this has proved attractive to commercial clients.

Otherwise, this sixth edition of the guide contains few surprises. The list of the top 10 company and commercial law firms in London, for example, is the same as in 1992, except that Allen & Overy and Lovell White Durrant have moved up a couple of places at the expense of Norton Rose and Herbert Smith. One feature absent from the 1993 guide that will be sorely missed is its recommendation of "firms going from strength to strength". Perhaps this is an indication of the impact of the recession on the legal profession.

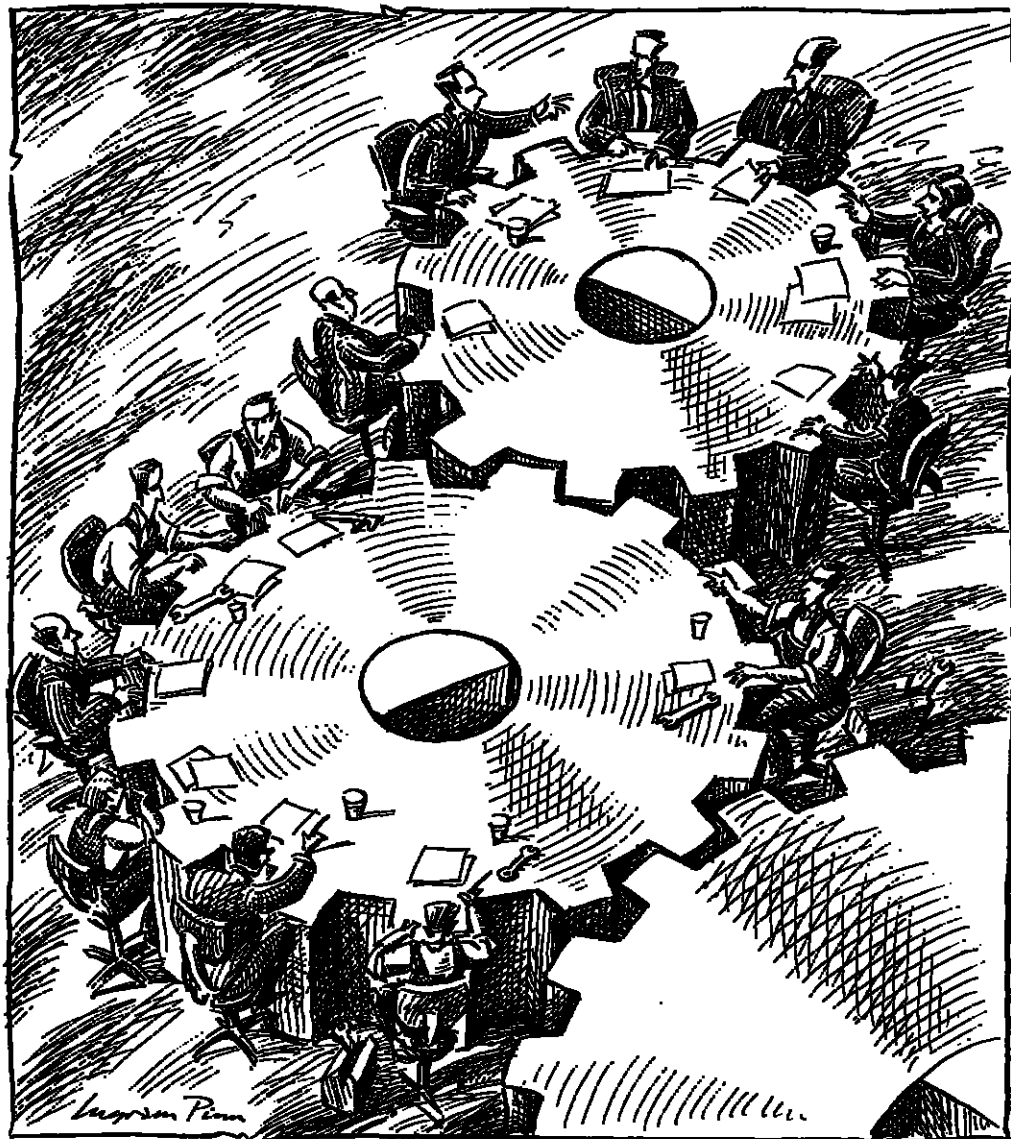
"The Legal 500 - the Client's Guide to UK Law Firms", by John Pritchard, Legalase, £29

Trademark award

Quaker Oats Co has been ordered to pay \$26.5m in damages to Sands, Taylor & Wood Co, a small Vermont company, in what is believed to be the largest award for trademark infringement ever made.

Quaker was originally ordered to pay \$42.5m to Sands for infringing its trademark "thirst-aid" by using it in an advertising campaign for Quaker's best-selling soft drink, Gatorade. The award, however, was reduced after a federal appeals court ruled that the original award was too high.

ENGINEERING FOR PROFIT



On Tuesday September 14th 1993 the Financial Times will launch a twice-yearly supplement... Engineering for Profit.

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FT SURVEYS

PEOPLE

Richard Farrant to head SFA

The Securities and Futures Authority, the self-regulatory organisation for the professional securities business, is replacing John Young, who has moved on to become chief executive of the Securities & Investments Board, with Bank of England veteran Richard Farrant.

Farrant, 49, who has been at the Bank since 1987, is currently one of the four deputy heads of banking supervision, with specific responsibility for supervisory policy. He has therefore had no recent line-management responsibilities for the likes of BCCI, and is not named in the Bingham report which criticised the Bank of England's supervisory role in the collapse of the corrupt international bank.

Christopher Sharples, chairman of the SFA, points out that Farrant is "very knowledgeable" on the international aspects of the SFA's business. In addition to his familiarity with Brussels and the formulation of EC directives, he is one



of the two UK members of the Basel Supervisors Committee, and has chaired its off balance sheet group since 1991. He has also had spells abroad, notably with the IMF in Washington and in Hong Kong. Between 1984 and 1986, he served as adviser to the Hong Kong Banking Commissioner, handling a succession of crises in local banks as well as working on the revision of the centre's bank supervision law.

A keen cyclist, pedalling from Paddington to the Bank every morning, Farrant is already familiar with the SFA's style having worked with its capital committee. He claims to be impressed by the "close practitioner involvement" in the SFA's approach to regulation.

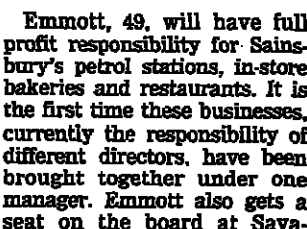
Young, a former deputy senior partner of Simon & Coates before he moved to the Stock Exchange, was there when TSA, the securities regulator which later merged with the futures regulatory body, was set up, and is credited with helping to set the tone for an informal and practical approach to regulation. "The SFA has been good and diligent, and possibly lucky, in not having an accident on its doorstep," comments one well-placed source.

While there are few Bank of England alumni in senior positions at the SROs, the SFA's head of enforcement, Andrew Jennings, spent ten years at the Old Lady.

Emmott shops down south at Sainsbury

The mystery over the destination of Bob Emmott, who resigned last week as joint deputy managing director of Wm Morrison, the Bradford-based supermarket chain, was solved yesterday when J Sainsbury announced his appointment as managing director, specialist businesses.

Sainsbury admits the appointment of an outsider to such a position is unusual, but observes that Morrisons is a "highly-respected" regional supermarket operator and Emmott has broad experience.



Emmott, 49, will have full profit responsibility for Sainsbury's petrol stations, in-store bakeries and restaurants. It is the first time these businesses, currently the responsibility of different directors, have been brought together under one manager. Emmott also gets a seat on the board at Sainsbury's hypermarket chain. He will report to David Clapham, a member of Sainsbury's main board.

Moving to Sainsbury may be something of a culture shock, but Emmott's 23 years with



Morrisons, during which time he has had responsibility for trading, marketing, store operations, planning and formats, and distribution and factories - should equip him well.

Jim Wadia to become new managing partner for Arthur Andersen

Jim Wadia is to become managing partner of Arthur Andersen, the UK's fourth largest accountancy firm, in succession to Roy Chapman.

Chapman, 56, is retiring following completion of his four-year term as managing partner for the UK. He will leave at the end of the year after a four-month transition period.

Wadia, 45, whose appointment was ratified by a vote of

the UK partners after internal consultation, has spent his career working on tax matters. Currently deputy managing partner, he takes on the new role on September 1 at the start of Andersen's fiscal year.

Chapman became managing partner of the London office in 1984, and has been managing partner of the UK firm since 1989. He has served on the worldwide board of partners

since 1988 and is chairman of its remuneration committee. He says he had long planned to retire in his mid-50s, and that it is standard practice to step down from major responsibilities at this age. He stresses that he is retiring, and intends to travel and pursue leisure interests for the first few months. After that, he says he may consider becoming a non-executive director.



The business logic behind British Telecommunications' investment in M.W. Marshall, one of the world's biggest foreign exchange brokers, may not be as powerful as it was, but for Barry Cameron Small, who negotiated the deal, it has a happy ending.

Cameron Small, a 38-year-old Scottish accountant, has been BT's representative on the board of Marshall's Finance, M.W. Marshall's parent, since the £175m management buy-out in February 1989. After four and a half years working for Britain's biggest company he has decided to give up his job as finance director of BT's personal communications division and return to the financial services industry as an executive director of M.W. Marshall.

His decision to return to full-time City life - he used to be treasurer of Commercial Union - is not entirely unrelated to the shrinkage in the size of BT. He was recruited to be BT's treasurer by Barry Romeril, the BT finance director, who recently departed for Xerox. The BT workforce has shrunk from 240,000 to 170,000 in Cameron Small's time and he says that he missed the financial services industry.

Mike Knowles, Marshall's chairman, says that now that the company has paid back much of its MBO debt it wants to start filling in some of the gaps in its activities and Cameron Small will be responsible for expanding the capital markets side. "We are very strong in cash markets but want to grow in off-balance sheet areas," says Knowles.

One of the reasons that BT took a 30 per cent stake in the M.W. Marshall buy-out was so that it could learn more about what its customers in the foreign exchange markets wanted. Although the market for sophisticated foreign exchange dealing equipment has not proved as lucrative as once thought, it is understood in financial terms BT's investment in Marshall's has turned out well.

Lessons from the low life

Mary Rose Beaumont reviews Peter Howson in Glasgow

It may sound somewhat premature for an artist to have a major retrospective at the age of 35, but Peter Howson has no difficulty whatever in filling the vast halls of Glasgow's McLellan Galleries with astonishing conviction. The earliest work in the exhibition is a small but vivid crucifixion, painted at the precocious age of six. It is prophetic of the subject of many of his mature paintings, in which a single figure is tied to a post, a humiliation actually undergone by a schoolfriend of the young Howson. This unpleasant event left an indelible memory of human cruelty which has never been exorcised and is indeed one of the constant motifs in his work.

Howson attended the Glasgow School of Art from 1976-77. He did not flourish and left, ironically, to join the Scottish Infantry, a course which confirmed his early experience of male brutality, later recorded in several shocking pictures. Before returning to the School of Art, he did various menial jobs which gave him a unique insight into the low life of Glasgow, a fruitful source of inspiration ever since. His repertoire of characters, observed during those years, include boxers, dossers, derelicts and drinkers, all failures and rejects of our society.

Scottish Expressionism came to the fore during the 1980s, and Howson, along with other graduates of the Glasgow School of Art, sprang to prominence in an exhibition called *New Image Glasgow* which alerted the world to a new,

feisty, urban-based art, inspired to an extent by German Expressionism, but with a compassion for the underdog which was peculiar to Scotland. Baudelaire would have been delighted with this late 20th century celebration of "the heroism of modern life".

Howson has been accused of excessive caricature. I think exaggeration is a better word, exaggeration of features and gestures to make his point: the bulky boys look more bestial, the depraved look more dejected, and the depressed look suicidal. Mob hysteria, such as at a football match, and Nazi salutes given by those taunting a trussed and helpless victim, are warnings against the kind of mindless violence with which we are becoming increasingly familiar. So-called "Patriots", as we know, are easily transformed into right wing extremists.

Howson's most impressive achievements are his triptychs, which have rightly been called apocalyptic. The world is his stage and human conflicts and desires his subjects. Violence on a global scale is endemic in these works, yet he can present sympathetically the predicament of a single individual: in "The Three Faces of Eve", 1990, the three panels trace the downfall of a young woman from innocent childhood through the stew of a grotesquely decadent nightclub to her degradation and probable death in a graveyard. One is swept along by the narrative, marvelling at the technical skill with which the artist has deployed the complex compositions.



'Patriots' by Peter Howson: a warning against mindless violence

Portraits are important to Howson. He has portrayed himself in many moods and aspects, but perhaps his most sustained achievement is the set of 25 etchings entitled "Saracen Heads", 1988, a gallery of exquisitely drawn heads of types encountered in the Saracen pub close to his studio in Glasgow's East End. A series of "Gallowgate Guests", 1991, in mixed media on paper, investigates another terrifying array of mostly evil-looking people, many of whom, like the pig-faced patriot have appeared in the paintings (to September 5).

At the Glasgow Print Studio Adrian Wisniewski is showing a new suite of ten prints in a variety of techniques entitled "Sex and Matisse". The prints play on a variety of themes by

or of Matisse - a bathers, an odalisque, a musical instrument in an interior and a photograph of the wheelchair-bound old man directing an assistant (an odalisque up a ladder) on the placing of his paper cut-outs. Wisniewski also had in mind Madonna's book *Sex*, the titles of his prints wittily playing on the crossover between artist and artist, between camp and vamp.

Wisniewski has abandoned his erstwhile dreamy youths for wall paintings covered with huge abstract marks made with a house painter's brush.

Curiously written neon signs give full rein to his visual jokes and puns, such as "If In Doubt, Use Black", a hoary art school cliché, or "This Happy Void", a phrase with which the

artist aims to counteract the prevailing *fin de siècle* gloom with bounding optimism.

The most recent work is in cut and painted perspex. Here too, the titles are important: "Coffee and Cream" is a small white square set over a larger one in "Café au lait". A set of glorious carmine rectangles arranged according to the Fibonacci system is entitled "Rosebud", a not so oblique reference to *Citizen Kane*. These seem to me to be key works, perhaps even a turning point in Wisniewski's career (to July 24).

The William Hardie Gallery is showing *Some Very New Paintings* by David Hockney. The paintings are designated simply as "The First (or Twenty First) VN Painting", and what

is VN about them is that they are brilliantly coloured, almost entirely abstract paintings in the same mode as those currently on show in the Royal Academy Summer Exhibition.

The works stem from Hockney's designs for Richard Strauss's *Die Frau Ohne Schatten*, which was performed at Covent Garden last autumn. As the hero of the opera is Barak the Dyer, Hockney conceived the settings in terms of colour, light and texture, which has translated very effectively into easel paintings. Those who think of Hockney as a consummate draughtsman and figurative painter will hate these VN paintings, but those who are prepared to follow him onto the stage will enjoy them for their lush exuberance (to August 27).

Rain stops play in Avignon

The Don Juan of Molière has a career that is identical with that of Mozart's Don Giovanni, not surprisingly since they both stem from the same original written by a Spanish monk. In both play and opera the Don has a faithful servant who accompanies him on his travels, takes much of the rap for his misdeeds, and at one point swaps identities with him. But, as emerges from the new production of Molière's comedy at Avignon that opened this year's Festival, there is a world of difference between the mood of the two works.

Through the interrogation of his master, amusingly combined with defiance and flattery, Molière's Sganarelle forces him to define and redefine his position in relation to the traditional Christian tenets he has repudiated. The result is a mixture of black comedy and socratic dialogue that rips apart the basic assumptions of family life. No wonder the Church saw that the play should remain unstaged for many years and then allowed it to reach the stage only in a sanitised version by Thomas Corneille. This was in spite of the climax, as in Mozart, when the statue of the Commander whom Don Juan has killed in a duel, comes to dinner - the subtitle is *Le Festin de Pierre* (The Stone Feast) - and consigns him to hell.

At the first night in Avignon when the stone Commander nodded his head in acceptance from his plinth there were magnificent claps of thunder and flashes of lightning. Full marks, we thought, to Jacques Lassalle, the administrator of the Comédie Française who has directed this production. But no, the storm was real. Then the unthinkable happened, the heavens opened and the rain poured down. There is no shelter either for actors or audience in the Courtyard of the Papal Palace and so at around midnight the play

was abandoned with two acts still to go. I cannot remember rain stopping play here ever before and I have been covering this Festival for at least 10 years.

Even so three acts out of five were enough to take the measure of Lassalle's production. The setting could not be more simple or more effective. A cluster of conifers to the left of the stage and a small stream in front serve as the decor. Towering above them is the great medieval facade of the palace alternatively shrouded in darkness or bathed in soft yellow light. It is a formidable arena for a conflict between good and evil, expressed through

Anthony Curtis finds Molière's Don Juan gets more than he bargained for

the discrepancy between appearance and reality, underlined by Lassalle in a series of costume changes. The Don enters in the traditional black doublet and hose of a Spanish nobleman and we observe him being stripped of this habit by the tubby cynical Sganarelle of Roland Bertin, an experienced actor who has played many roles here in previous festivals. The hero is then shaved and re-attired on stage in a colourful costume suitable for a masquerade. This Don Juan has to contend not only with the ghost of the Commander but with several historical ones, the ghosts of those great actors who have played the role in living memory - Jovet, Vilar, Strehler among them.

Avignon's new Don Juan, the Polish actor Andrzej Seweryn has been working in France since 1980. He joined the Comédie Française this year and he gives an exciting interpretation of the exacting

role. He has grace, agility, gentleness; his striking lantern-jawed face provides a fine impassive mask to match the enormity of his utterances and behaviour. He treats the tirades as if they were nocturnes by Chopin, delivering them with delicate, subtle articulation. The same lightness of touch is evident in his bodily contact with the other characters, notably when he encounters his discarded wife Elvira. This role of the one-time nun is played by Jeanne Balibar, a young actress still a pupil of the Conservatoire: a great opportunity which she seized passionately. Clearly we are going to hear a lot more of her in the future.

The later scene with the two peasant girls (Catherine Sauval and Cecile Brune) to both of whom Don Juan has promised marriage was played with a similar balletic mobility. As Don Juan removed their bonnets and let down their hair, it seemed only right and proper that they should have rejected their longstanding rustic boyfriends in order to marry him. Seweryn elegantly deflects their questions, refusing to commit himself to either by name. In the end the two women are left embracing each other, the Don having once more escaped.

Lassalle is on record as saying that he views the comedy as "a kind of road movie." Don Juan uncovers new aspects of himself with each encounter. They are marked by the director's skilful use of the elements - water into which one of his assailants is thrown, earth on which he sits, fire by the light of which he unfolds his pragmatic morality to his servant. It will be interesting to see how Lassalle copes with these effects when this essentially open-air production transfers to the Salle Richelieu in Paris later this year. At least it will not be rained off there.

Concert/David Murray

A symphony of familiar effects

At the Barbican on Sunday, Radu Lupu gave an immaculate account of Beethoven's C minor piano concerto, the Third. The light gravity which is Lupu's special grace - everything judiciously weighted, nothing portentous - was ideal for the work. Though his pliant demeanour was dour as ever, he lit up every movement, from his beautifully poised entry in the first movement to the playfully pointed Rondo. The Largo was a singing idyll.

The London Symphony was conducted by Mstislav Rostropovich, who is regularly at his best when accompanying an artist he admires. Throughout, he was as attentive and sympathetic as could be. So he was, evidently, in the Fourth Symphony, "The Morning Star Arises" - of Vyacheslav Artyomov, which was receiving its world premiere here through his good offices; that, however, was surely misplaced loyalty. Artyomov is yet another Russian composer of whom the West has scarcely heard, but he sounds most unlikely to acquire the almost overnight fame of Gubaidulina or even Gorecki.

His Fourth completes a tetralogy, after "The Way to Olympus", "On the Threshold" and "Gentle Emanation". The project has a Stryanescque ring, confirmed by Artyomov's declaration that his music "is an expression of my inner soul as a composer, and that is how it reflects the soul of the world". Without wishing to

contradict him (for what he writes is doubtless passionately felt), one may add that it also reflects the most ear-catching devices of recently fashionable Western composers. It is a "symphony" of familiar effects, notable only for squeezing so many of them into one work.

It took nearly three-quarters of an hour of which a record number of minutes outstayed their welcome. It began with stormy churning, like the more hectic passages in a Stryanec symphony, though there was a sudden echo of Holst's "Uranus". (At the close, "Nep-tune" would come irresistibly to mind as well, and some Brit-ten and Messiaen surfaced too.) There was an interlude of slow, ticking harps over menacing rumbles, with florid outbursts for union strings; the climax lay agonisingly high for the violins. A skirling oriental march came and went like an irrelevant memory of Borodin.

Eventually the music settled into middle-period Baroque mode, almost immobile: long, sustained chords shifting only by a note or two at a time. A groundswell of "celestial" bling-ing and bonging which had threatened earlier - Artyomov's percussion is recklessly, self-defeatingly overdone became a flood, and children's voices sang something uplifting (not identified in the programme). With only a construction of the loosest kind to shore them up, none of these effects seemed more than wilful hectoring. Not much fun.

Pop/Antony Thorncroft

Neil Young

The Gods seem to favour aging hippies. Amaze them that they have survived, touched with awe at the amount of death defying drugs they have absorbed, gives them an almost priestly authority. They also seem to have control over the elements. As Neil Young stepped on stage at Finsbury Park on Sunday night the rain stopped. It stayed cold, dank and dismal, but marginally the spirits perked up.

They stayed perked for the next two hours as Young went through his considerable bag of tricks. He has over 20 years of recorded products to choose from, covering every highway and byway of pop, from Woodstock dottiness to poke-in-the-eye grunge. You somehow forget that he was responsible for such classics as "Heart of Gold", "Only Love Can Break Your Heart" and "Alabama", and on and on. He could fill a week's play list on Classic Gold, yet he still retains a musical integrity and the respect of the myth makers.

It was all on offer in the park. For a man who set up the original super group with Crosby, Stills, and Nash it is natural that he should now call on the revered Memphis blues band, Booker T and the MGs to back him. Not that he needs them. Young is a big musician, tall and sturdy, the mop of hair surprisingly dark, the bald spot well disguised, the presence commanding. He is also big in sound, contrasting his wailing, jagged, feed-

back driven guitar with some plaintive harp blowing. If this is returning to the past it is exhilarating enough to make conservatives of us all.

The band was very much a supporting group, despite the lustre of legendary guitarist Steve Cropper and Booker himself towering over the keyboards. This was Young's party. It began slowly, inhibited perhaps by the cold, and the rather forlorn-looking crowd. The opening songs were equally melancholic, with Young, digging deep into his roots for "Southern Man" and the stricken "Helpless". Gradually the atmosphere warmed up with "Motorcycle Man", which brought in backing vocals, and a buzz in the audience.

From being a static voice in a gathering gloom - and Young's voice has deepened for the better over the decades - Young started to stomp the stage, and the whole performance picked up steam. It is useless to pretend that a sombre evening in a scrappy London park is an ideal setting for such a manic performer. He flowers best in the claustrophobia of a small club, where he can pepper his wit and cynicism over his music. But as he concentrated on the classics, and brought in the band from the shadows for party pieces, you at least knew you were experiencing one of the true giants of pop, a man for all seasons. You can hardly grudge him his late flowering as a big venue money grabber.



Kevin Anderson and Patti Lupone in Andrew Lloyd Webber's "Sunset Boulevard", which opened at the Adelphi last night, will be reviewed tomorrow

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Concertgebouw Tonight: chamber music evening with pianist Douglas Ashcroft and friends. Tomorrow: Herman Krebbers, former leader of Concertgebouw Orchestra, plays violin concertos by Bach and Vivaldi. Fri, Sat, Sun: Arnold Ostrman conducts Radio Chamber Orchestra in three different programmes of music by Mozart, with soloists including violinist Emmy Verhey and pianist Melvyn Tan. Next Tues: Hilliard Ensemble (671 8345)

ATHENS

Odeon of Herodes Atticus Tonight: Central Ballet of China. Tomorrow and Thurs: Gennadi Rozhdestvensky conducts Moscow State Symphony Orchestra, with cello soloist Mstislav Rostropovich. Fri: Athens State Orchestra, Next week: Ballet de l'Opéra de Paris (322 1459) Epidaurus The annual festival of ancient drama in the 1400-seat amphitheatre at Epidaurus has performances on most weekends throughout the summer. This week's

performances on Sat and Sun are Aristophanes' Ecclesiazousae (Women in Parliament). July 31, Aug 1: Menander's Samia. Tickets are available daily at the Athens Festival box office (322 1459) or at the theatre of Epidaurus on Thurs, Fri and Sat (0753-22006)

ANTWERP

ANTWERP 93 Sat, Sun, next Mon and Tues: festival of historic keyboard instruments masterminded by Jos Van Immerseel, with concerts by Willem Janssen, Patrick Cohen, Yoshiko Kojima and others at various locations. July 20: first of a series of performances of Opéra Equestre, circus opera with horses and traditional music (226 9300)

CHICAGO

RAVINA FESTIVAL Tonight: Louie Anderson. Tomorrow: Gordon Lightfoot. Thurs: Rudolf Firkusny plays Dvorak's Piano Quintet Op 81 with Transylvanian Quartet. Fri and Sat: Lawrence Foster conducts Chicago Symphony Orchestra in a Russian programme (Fri, with pianist Horacio Gutierrez) and concertos by Mozart, Walton and Grieg (Sat, with soloists including pianist Leif Ove Andnesen). Sun: Foster conducts Faust Act III and Rigoletto final act with soloists including Renée Fleming and Denyce Graves. Next Mon: Randy Newman. The festival runs till early September. (Tel 312-728 4642 Fax 708-483 4882)

COPENHAGEN

Tivoli Tonight: Malmgrens Residenz

Orchestra plays works by Bach family. Tomorrow: Tivoli Symphony Orchestra plays works by Weber and others. Thurs: European Community Chamber Orchestra. Fri: Viktor Tretjakov plays Brahms' Violin Concerto. Sun: Arhus Sinfonietta plays works by Rueders, Ives, Falla and Martinson. The summer concert season runs till Sep 17 (3315 1012)

LONDON

THEATRE ● Sunset Boulevard: Andrew Lloyd Webber's new musical based on the 1940s Billy Wilder film (Adelphi 071-344 0055) ● The Mountain Giants: William Gaskill directs Pirandello's unfinished play about theatrical illusion. Final preview tonight, opens tomorrow (National 071-928 2252) ● The Taming of the Shrew: Bill Alexander's play-within-a-play treatment of Shakespeare's comedy. Previews from Thurs, opens next Tues (Barbican 071-638 8891) ● Misha's Party: world premiere of a new play about the background to the attempted coup in Moscow in 1991. Co-written by Richard Nelson and Alexander Gelman as a joint commission from the RSC and Moscow Art Theatre. Previews from tomorrow, opens next Wed (The Pit 071-638 8891) ● The Madness of George III: Alan Bennett's award-winning play about a king's derangement and its effect on the tottering state. Nigel Hawthorne repeats his acclaimed performance as the afflicted monarch in Nicholas Hytner's production. From Thurs in the Lyttelton (National 071-928 2252)

● Present Laughter: Tom Conti directs and stars in the Noel Coward comedy (Globe 071-494 5065) ● Grass: David Gilmore directs the musical based on the film. Now in previews, opens on Thurs (Dominion 071-413 1411) ● For ticket information about West End shows, phone Theatreline from anywhere in UK: Plays 0836 430959 Musicals 0836 430960 Thrillers 0836 430962. Most London theatres are closed on Sunday.

MUSIC/DANCE ● Covent Garden Tonight: Valery Gergiev conducts first night of John Coe's new production of Eugene Onegin, designed by Timothy O'Brien, with a cast led by Sergei Leiferkus, Galina Gorchenkova, Gergiev Grigorian and Nicolai Ghiaurov (repeated July 15, 17, 20, 22, 24). Tomorrow, Fri: Don Giovanni with Thomas Allen, Claudio Desderi and Karita Mattila (071-240 1068) ● Colliseum Kirov Ballet season: this week's performances are La Bayadère and the Lavrovsky production of Romeo and Juliet. Daily except Sun till July 31 (071-636 3161) ● South Bank Centre Jazz Parade: guest artists include Al Green, Count Basie Orchestra, Nancy Wilson Trio, Arturo Sandoval, BB King and Linda Hopkins (daily till Sat). Glyndebourne Festival Opera presents The Merry Widow on Sun, next Tues and Thurs, starring Felicity Lott (071-928 8800) ● Barbican Tomorrow: Barbara Cook cabaret. Fri: Chick Corea. Sat: Barbershop evening. Sun: National Youth Jazz Orchestra (071-638 8891) ● Royal Albert Hall Fri: Andrew Davis

conducts concert performance of Elektra, first night of 1993 BBC Proms season. Sat and Sun: Van Pascal Torsler conducts BBC Philharmonic, with soloists including Cecile Cusset and John Tomlinson. Next Mon: Davis conducts Tippett's Fourth Symphony and world premiere of new John Butler work (071-589 8212)

MILAN

Teatro alla Scala Tonight: Daniele Gatti conducts first of seven performances of the Pizz! production of Tancredi, with alternating casts including Chris Merritt and Mariella Devia (2300 3744)

ROME

ROMAEUROPA Tonight and tomorrow at Villa Massimo: Angelin Preljocaj dance ensemble. Fri at British Council: soprano Nicola Walker Smith and trombonist Barrie Webb in music by Jonathan Harvey and others. Next week: Rudolf Buchbinder, Netherlands Dans Theater and Jonathan Burrows Group (4890 4024)

ROTTERDAM

De Doelen Andrew Lloyd Webber's musical Evita, directed by Harold Prince, opens on Fri for seven performances (217 1717)

TURIN

Teatro Regio Tonight and tomorrow (Piccola Regio): Compagnia Virgilio Sieni Danza in choreographies by Virgilio Sieni. Tomorrow and Thurs:

LaLaLa Human Steps in choreographies by Edouard Lock. Sat and Sun: Balletto di Toscana in Mediterranean, choreography by Mauro Bigonzetti. Next week: Moshe Efrat Koldama Dance Company and Les Ballets de Monte Carlo (8815 241)

WASHINGTON

● The Phantom of the Opera: Andrew Lloyd Webber's musical, directed by Harold Prince. Till Aug 28 (Kennedy Center Opera House 202-467 4800) ● Strindberg in Hollywood: Drury Pifer's portrait of the 19th century dramatist in 1993 Hollywood. Till July 18 (Woolly Mammoth Theatre 202-393 3939) ● Land Me a Tenor: operatic farce by Ken Ludwig. Till Aug 1 (Olney Theatre 301-924 3400) ● The Twilight of the Gods: Jonathan Toline's witty family drama with moral, emotional and physical undercurrents. Till Aug 1 (Eisenhower Theatre 202-467 4800) MUSIC/DANCE ● Wolf Trap Tonight, tomorrow: stars of the Bolshoy and Kirov Ballets in selections from Giselle and other classical ballets. Thurs: Roger Whittaker (1624 Trap Road, Vienna, Virginia, 703-218 6500) ● Baltimore Symphony David Zinman conducts six Mozart programmes over the next three weeks, with soloists including violinist Joshua Bell. The first three concerts are on Thurs, Sat and next Tues (Joseph Meyerhoff Symphony Hall, Baltimore 410-783 8000)

ARTS GUIDE

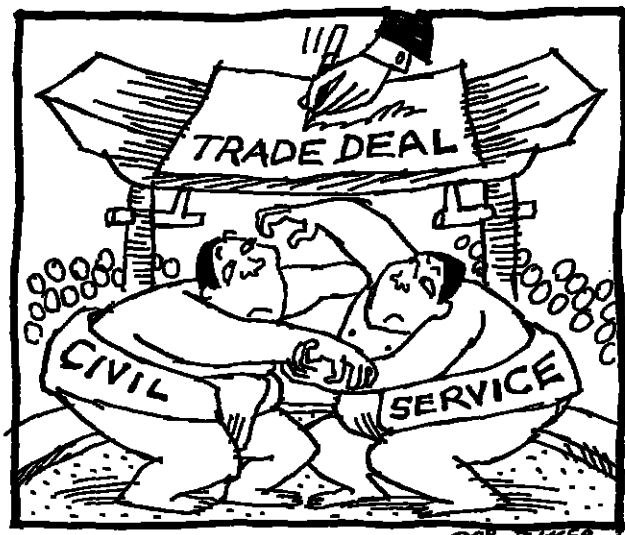
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Unusual show of strength

Japan's election poses questions about the bureaucracy's role, writes Charles Leadbeater



Mr Kijichi Miyazawa, Japan's prime minister, apparently mortally wounded by a no-confidence vote against him two weeks ago, turned the conventional wisdom of Japanese politics on its head last week: he took a decision.

Not only was the decision significant - to make concessions to secure a framework for trade talks - but Mr Miyazawa did so despite opposition from one of the most powerful arms of Japan's bureaucracy, the Ministry for International Trade and Industry.

Mr Miyazawa bypassed Miti with a personal letter to President Bill Clinton to reopen talks with the US, stalled in Tokyo 10 days ago. Miti was furious, but worse was to come.

Mr Miyazawa repeatedly intervened last week to keep negotiations going. His boldness sent a shudder through the ordered world of Kasumigaseki, the Tokyo district between the Imperial Palace and parliament, which is home to Tokyo's shabby ministries.

The life of the elite bureaucrats of Kasumigaseki rests upon a clear division of labour: they decide the policies, the politicians present them; the bureaucrats worry about Japan's long-term interests, the politicians worry about getting re-elected; the bureaucracy prides itself on probity, the political system is lubricated by corruption.

It was widely assumed that this division of labour would be reinforced by the political turmoil in the run-up to next weekend's general election, which was triggered by the no-confidence vote.

The prime minister was supposed to be a lame duck. The splits in the Liberal Democratic party ranks mean the next government is almost certain to be a coalition, preoccupied with political reform. So, many assumed, the bureaucrats would fill the vacuum by increasing their already prodigious power.

Mr Miyazawa's sudden transformation into a man of action has sent the bureaucracy a warning. The political upheaval is not simply a challenge to the LDP's political dominance, it is threatening to rewrite the rules by which Japan has been governed since 1945. Under those rules, the LDP, in power for 38 years, has provided a political umbrella under which the bureaucracy can work untroubled by political interference. The LDP has benefited from its privileged

access to ministries, and can press for concessions on behalf of constituents who may want building regulations relaxed or a bridge built, for instance.

So the bureaucracy shares with the LDP a vested interest in maintaining the post-war framework which has given it such influence.

Japan's top civil servants have been bred to rule. They are as powerful as their counterparts in France, while being more pragmatic. They are more practical than the British and less politicized than the Americans.

The bureaucrats are also a closed society - the top echelons of the finance ministry, the pinnacle of the bureaucracy, are drawn almost exclusively from one department of Tokyo University, the law faculty. The graduates of the handful of universities - Tokyo, Waseda, Keio - which staff the upper posts of the civil service will move through their careers together at the same orderly pace, frequently crossing paths.

Yet in spite of this incestuousness, ministries compete fiercely to guard their turf. The finance ministry, Miti and the foreign ministry run parallel, but sometimes conflicting, foreign policies which cover

trade, finance and diplomacy. Each ministry has a mission. At the finance ministry it is to keep the public finances out of the clutches of spendthrift politicians. At Miti it is to promote the interests of Japanese industry. At the foreign ministry it is to shepherd Japan into a wider world role to match its economic dominance.

Mr Noboru Hatakeyama, until recently the top official at Miti, believes the bureaucrats will steer Japan through the political turmoil ahead. He explained: "This may be a fundamental change in the political structure but not in the bureaucratic system, which is very stable, with capable people who will serve their country even if there is a big change in politics."

In the short term, bureaucrats may gain more power. A senior finance ministry official said: "The bureaucracy is powerful when the politicians are divided. When they cannot agree they turn to us for policies. If Japan is now going to have rather unstable coalition government, with divisions between partners on policies, then the bureaucracy may have to do more by way of making policy."

Yet the idea that the civil service will emerge after the election as the main winner is probably mistaken, for two reasons. First, top officials admit big decisions can only be taken by democratically accountable politicians rather than unelected bureaucrats. As a rising star at the finance ministry admitted: "The bureaucracy will keep the wheels of government moving on small, routine decisions. But big issues, like tax reform or whether another pump-priming package is needed to boost the economy, require political leadership. The bureaucracy is too cautious to take such decisions on its own."

Second, Japan's young reformers want to reorganise the relationship between politics and the bureaucracy, to put politicians firmly in the driving seat. Mr Ichiro Ozawa, one of the leaders of the Japan Renewal party, formed after splitting from the LDP, argues Japan needs two parties capable of governing to reinvestigate political debate. Mr Ozawa also believes Japan needs more decisive leadership.

Mr Kazuo Aichi, another Japan Renewal member, said: "Policies should be decided openly by political debate, not in ministries. Politicians should make decisions, set priorities and then the bureaucrats should carry them out."

There are a lively debate among forecasters - including the Seven Wise Men and the OECD - about the respective importance of these factors, on which their policy recommendations depend. If the deficit is mainly due to the recession, it will disappear in the upturn. If not, action must be taken to correct it.

Unfortunately, you can only quantify the effect of the recession by comparing the actual outturn with a hypothetical no-recession scenario. That gets you straight into the world of economic models, the debate about the underlying growth rate of the economy, and the extent to which output is currently below trend. Economists differ sharply on these issues and about the effect of output on tax and spending.

To avoid these problems, we can adopt a much simpler approach, which is to compare the latest official revenue and spending projections for 1993-94 with those made in March 1990. That date was the last occasion on which the government's fiscal plans showed the economy still on course for a balanced budget in the medium term.

The comparison shows how much of the extra borrowing is due to extra spending and how much reflects lost tax revenue. We can roughly quantify the effect of the recession on tax revenues, even though we do not know the size of the output gap, because we do know that we have lost nearly 5 per cent of output compared with earlier plans.

Since tax revenue depends, other things being equal, on the level of output, that implies a 5 per cent loss of revenue, worth some £11bn.

The remaining £13bn of lost revenue must be attributed to tax changes that were not forecast in 1990. On the spending side, we know that the social security budget bears the brunt of the recession. If we assume that all the extra social security spending (compared with previous plans) is due to the recession, we get a rough idea of how much of the extra spending is recession-induced.

We find that planned social security spending for 1993-94 has been revised upwards by £11bn since 1990. (Although the published 1990 spending plans do not include a breakdown by spending department beyond 1992-93, we can use the rate of growth of social security spending published in the

The chancellor's dilemma: an inside view

The hole in our pocket



The Treasury expects to borrow £50bn this year. Yet only three years ago, in his March 1990 Budget, then-Chancellor Major expected a balanced budget for 1993-94 after giving away £3bn in tax cuts.

What has caused this rapid deterioration in the public finances and can it be reversed?

Some blame excessive public spending ahead of the election. On this view, the deficit will not be cured until what was given away then is clawed back by further spending cuts.

Others claim the main problem is the recession, which pushes up social security payments irresistibly while reducing tax receipts. On this view, much of the deficit will melt away as the recovery gathers strength.

A third factor, less widely recognised, is an unexpected erosion of tax revenues because of policy changes, such as the introduction of independent taxation, new tax breaks for savings, and generous carry-back of losses for corporation tax.

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We find that planned social security spending for 1993-94 has been revised upwards by £11bn since 1990. (Although the published 1990 spending plans do not include a breakdown by spending department beyond 1992-93, we can use the rate of growth of social security spending published in the

1991 plans to fill in the missing number.) Since total public spending has been revised upwards by no less than £30bn, it is tempting to conclude that discretionary spending must have risen by £19bn. However, this ignores a very important item of unavoidable spending: the interest charges on past borrowing.

When public borrowing goes up, whether because of recession or because of extra discretionary spending, debt interest charges also rise. The deterioration in the public finances has brought about a sharp rise in the government's outstanding debt, and hence in the interest accruing on it.

Strictly speaking, some of that increase should be scored as discretionary, since it is past spending decisions as much as the recession that have pushed up today's debt interest bill. On the other hand, the government has no discretion about paying the bill today. When debt interest charges go up, it is an irresistible claim on the public purse, just as it is when rising unemployment pushes up social security claims.

Which brings us to the central issue. The whole point of trying to calculate how much of the rise in borrowing has been due to the recession is to estimate how much will be automatically reversed by economic recovery.

In this context, it is immaterial why the extra debt interest charges have arisen. The point is they are an extra charge on the public purse which is both irresistible and, unlike social security spending, irreversible. Compared

with its March 1990 plans, the government will have £110bn of extra debt by the end of this year

with its March 1990 plans, the government will have £110bn of extra debt by the end of this year. At today's interest rates, that is some £8bn of extra public spending on debt interest charges.

These calculations, summarised below, are intended to cast light on two issues: how we got into this mess; and how we might get out of it.

The figures suggest that our problems are two-fifths due to the recession, one-fifth due to extra discretionary spending and one-fifth due to missing tax revenue. The missing fifth is the combined effect of all these factors on the debt interest bill.

Getting the public finances back to the healthy state shown in the 1990 plans requires some £11bn of spending cuts and £13bn of tax increases. But even that would not eliminate the residue of debt interest charges resulting from a permanently higher national debt. Nor is it by any means certain that all the recession-induced social security spending will simply disappear in the upturn. The social security budget has tended to ratchet upwards in the past, leaping ahead in recessions but not falling back in the subsequent recovery.

In the first Budget of 1993, Mr Norman Lamont proposed tax increases which will raise an extra £10bn of revenue by 1995-96. Mr Clarke has hinted that he may do more in the November Budget. So the problem of revenue shortfall is being addressed. However, it cannot be right to tackle a deficit which is partly caused by excessive spending simply by raising taxes. Action is also needed on the spending side. Yet none has so far been proposed. Why not? I shall try to explain next week.

Bill Robinson

The author is former director of the Institute for Fiscal Studies and was special adviser to the former chancellor, Mr Norman Lamont.

How and why borrowing has changed

Changes in Plans for 1993-4 between 1990 and 1993 (£bn)

	Recession	Other factors	Total
Revenue	-11	-13	-24
Spending	11	19	30

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Spending

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FINANCIAL TIMES

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Tuesday July 13 1993

Brinkmanship in Baghdad

IF NOTHING else, President Saddam Hussein is consistent. Since the invasion of Kuwait nearly three years ago, the Iraqi leader has persistently refused to obey UN Security Council resolutions. Time and again he has challenged the authority of the world body. On occasion defiance has been a prelude to retreat but when he has proved inflexible, the Gulf war allies have had, jointly or individually, to consider a military response.

The justification for such a response under international law needs to be fully demonstrable, because it is vital to act under the authority of the UN and to maintain, so far as possible, the political cohesion of the international alliance which was created to force Iraq out of Kuwait. That legality and political cohesion were stretched beyond the limit by the US missile strikes on Iraqi intelligence headquarters in Baghdad last month. The attack, in retaliation for an alleged plot to assassinate former President George Bush, was justified by Article 51 of the UN Charter. Several of America's allies expressed no more than "understanding" for the raid. Others were deeply sceptical about the reasoning behind it, sensing that it owed more to President Clinton's domestic difficulties.

There should be fewer doubts at the UN or in Baghdad about the consequences of the latest confrontation with the Iraqi leader. As part of its programme to deny

Iraq weapons of mass destruction, UN teams have sought to install cameras at two missile testing sites south-west of the capital. Although, under the terms of the ceasefire resolutions, Iraq was permitted to retain missiles with a range of less than 90 miles, UN officials rightly suspect that Iraq would use its test facilities to develop weapons with a longer range. They want to make sure that Iraq has no such opportunity.

Iraq argues that by installing cameras the UN would be violating its sovereignty and this action could be used subsequently as a pretext for shutting down other facilities used for industrial purposes. Neither argument carries weight and by refusing to allow the remote-control cameras to be introduced, Iraq only deepens suspicions about its intentions.

Unlike the American missile attack last month, the present confrontation is limited to two sites and one issue. The buildings housing the Iraqi test facilities are clearly grouped and the Iraqis know precisely what is required of them. The permanent members of the Security Council might reasonably argue that Saturday's refusal by Iraq even to allow inspectors to seal the missile sites while negotiations continued provided justification enough for military action.

Even so, they must be mindful of the need to explain and justify. Once that is done, the responsibility of any subsequent military action belongs to Saddam Hussein. He must learn to expect consistency from the UN.

Private pensions

SHOULD Britain's state pensions be privatised?

If Mr Frank Field, the backbench Labour MP, did not already know how sensitive raising this topic would be, he found out at the weekend. The Labour leadership immediately dismissed him as a maverick for proposing radical reforms. Even Mr Peter Lilley, the Conservative social security secretary, has not dared to question the state pension openly in his current review of the welfare state, though he did welcome Mr Field's contribution to the debate.

Mr Field is to be congratulated for airing the issue for three reasons. First, the state pension is already below the poverty line and will become increasingly inadequate as a basis for retirement since it is increased in line with inflation rather than earnings. Second, the growth of occupational pensions and other forms of savings means it is no longer necessary for the state to provide pensions for all to combat poverty in old age. Third, providing state pensions to all in the long run is probably unsustainable. The current cost of over £30bn a year will rise inexorably as the population ages.

Although this demographic time-bomb will not explode until early next century, that is no excuse for putting off decisions. Since pensions schemes cannot be reformed quickly, the sooner politicians debate alternatives the better.

Any reform would, of course, face serious hurdles. The biggest

would be to find ways to encourage people to take out private pensions while at the same time protecting those who were too poor to save for their old age.

Mr Field's solution is to make private provision compulsory and for the government to contribute to the private pensions of those not in work. Another solution could be to bribe people to opt-out of the state scheme by reducing their National Insurance Contributions - the approach taken by the government when it decided to phase-out the state earnings related pensions scheme in the mid-1990s.

The main drawback with both approaches is that they could cost the exchequer large sums of money in the short-run, with the full savings accruing only after several decades.

A cheaper option would be to announce that the state pension would gradually wither on the vine. Such an approach would rely on people receiving a sufficient motivation to save for their pensions from the generous tax-reliefs that are available. Those who still did not save enough for a minimum retirement income would be protected by a means-tested safety net.

There may be other, more attractive alternatives. But they will not be devised and get the public hearing they need unless there is a full and open debate on the subject. That debate should not be left to a few brave souls like Mr Field. Front-bench politicians must join in.

US-Japan trade

WE AGREE," declared last week's communiqué from the summit of the seven leading industrial countries "that no recourse should be made to initiatives and arrangements that threaten to undermine the multilateral, open trading system." After uttering these fine words, the US and Japanese governments promptly announced agreement on a new "negotiating framework" to resolve the bilateral issues that divide them. Communiqué are often ignored, but their promises usually last more than a few hours.

The framework does not, at least so far, either establish quantitative goals for changes in Japanese macro-economic policy or lay down precise criteria by which the opening of the Japanese economy can be assessed. The two agreed aims are simply a reduction in Japan's current account surplus and the opening of markets.

Talks on the latter are to be subdivided further into Japanese public procurement, particularly of foreign computers, supercomputers, satellites, medical technology and telecommunications; regulatory reform, which covers financial services, insurance, the distribution network and competition policy; "other major sectors", particularly cars and cars parts; economic harmonisation, including intellectual property; and the monitoring of agreements.

One question is whether the objectives make sense. The answer is that they do so only up to a point. Faster growth in Japanese demand is desirable, for

example, but a smaller external surplus may well not be.

A second question is whether the "objective criteria" the Japanese have proposed as a way of assessing the openness of their markets will turn into precise targets, or not. Probably they will. Results-oriented trade would then become managed trade.

A final question is whether these proposals are consistent with the summit's declaration in favour of multilateralism. They are not, in at least three respects: first, participants other than the US and Japan have been excluded; second, the discussion is being conducted outside the purview of the Gatt; finally, the agenda is dictated by specific US concerns.

Many in the US believe that their concerns are more legitimate than those of other countries. They are mistaken. Judged by the ratio of their bilateral deficits to their total trade with Japan, many countries have a bigger problem, among them being Hong Kong, Taiwan and the European Community as a whole.

Other countries should address their own demands to Tokyo. The US and Japan would probably reply that they are not powerful enough for a seat at the table, which would at least confirm the emptiness of the summit's declaration in favour of multilateralism. But perhaps the two powers would feel obliged to agree. Then the dispute would involve all of Japan's trading partners, not just the US. This particular cartel needs to be broken right now.

The involvement of private capital in public sector projects could harness government and business together to build a new prosperity across Britain, Mr John Major told a Confederation of British Industry conference in May.

The prime minister was referring to the private finance initiative launched in last year's Autumn Statement, to encourage the use of private investment for public projects. Mr Norman Lamont, the then chancellor, said the initiative would mobilise the private sector "to meet needs which have traditionally been met only by the public sector".

Yet eight months after the Autumn Statement, the government has yet to announce a significant new public sector project which involves private finance. There is disenchantment among industrialists and financiers, who fear the initiative will run out of steam unless there is some early progress.

The Autumn Statement promised several measures to encourage greater use of private finance for public projects:

● Joint ventures between the private and public sector were to be encouraged, with the government offering concessional loans, equity participation and transfer of assets.

● The Treasury would relax its accounting rules for leasing to allow greater use of long-term leases. The private sector could then lease expensive equipment to the health service, for example.

● Financially free-standing projects that could cover costs by charging users would be allowed, even though they could in theory be financed more cheaply in the public sector. (In most cases, such projects would, in practice, be unlikely to go ahead because of Treasury restrictions on public borrowing.)

There have been attempts to present projects such as the Heathrow Express rail link as evidence of a new partnership between public and private sector. However, this joint venture between the British Airports Authority and British Rail was first mooted in 1988, long before last year's Autumn Statement.

The environment department's contribution to the private finance initiative has been to publish a list of urban development schemes seeking private sector partners. These are similar to dozens of other inner-city regeneration schemes in which public sector funds are used to prime the pump for private sector development. Building business parks and housing estates is hardly meeting "needs which have traditionally been met only by the public sector".

And the Department of Health has relaxed the rules on leasing capital equipment in the health service.

The government has so far failed to attract private finance for public sector projects, says John Willman

No takers for the available tickets

But requirements that the Treasury scrutinise half of all leases worth between £1m and £10m leave the rules too inflexible to attract the private sector, according to Mr Peter Jacobs, chief executive of Bupa, Britain's biggest private healthcare group. The initiative is likely to collapse "if the private sector keeps facing blockages", Mr Jacobs warns.

Mr Howard Davies, director-general of the CBI, said recently the whole initiative would be discredited "unless real holes can be dug in the ground pretty soon".

Business people interested in the initiative complain that the Treasury is itself uncertain about the sort of contribution the private sector could make.

According to one banker who has been involved in several infrastructure projects: "The government does not understand how the private sector operates, what it's looking for in an investment project and how to attract investors".

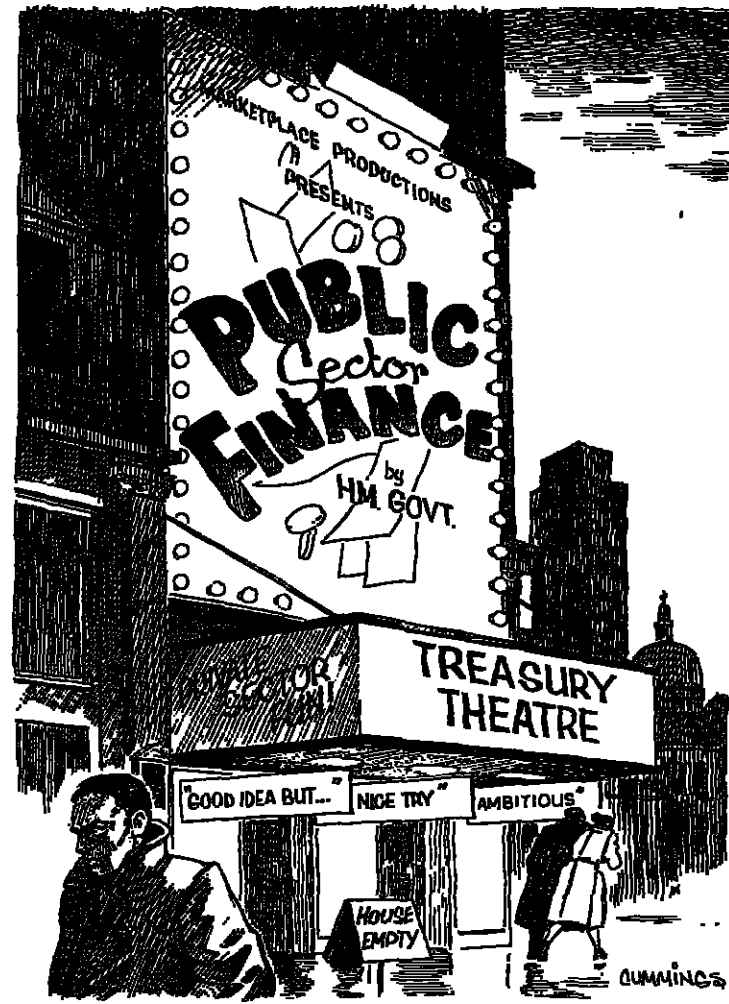
An executive involved in the leasing business says that "the Treasury still has a lot to learn. Its paper on leasing and risk transfer showed that they do not understand how the industry works".

The transfer of risk from the public to private sectors has been at the heart of the difficulties in making the private finance initiative work. The Treasury insists that a private sector company which builds a toll bridge, for example, must bear the risk that tolls might be insufficient to cover the costs. If the government accepts responsibility for failing out the company, the project counts as public expenditure under UK public accounting rules.

The Treasury's main - and understandable - concern is that raising private finance to fund public expenditure should not be a form of additional government borrowing.

The Treasury accepts that there should be some sharing of risk in joint ventures. Its guidance for departments says that the legal agreements should set out in "specific and clear terms... so that the risk which each party undertakes properly reflects a clearly agreed structure of risk and reward". But the more the risk is transferred out of the public sector, the higher the return the private sector expects to earn. Keen though it is to see the initiative succeed, the Treasury is uncomfortable with the idea of putting sufficient public money "two joint ventures" to allow the private sector partner to earn a return on capital of 20 per cent or more.

There are also disagreements over what sort of risks it is fair to transfer to the private sector. The Treasury expects government departments to demand the maximum transfer of risk to private sector partners: the partners are con-



cerned to minimise the risk as far as possible to those factors under their control.

In transport projects, for example, the private sector should be expected to take risks associated with design efficiency, cost and time overruns during the construction phase, and the efficiency of operations, according to Mr Peter Foy, senior partner at McKinsey, the management consultants.

In his role as chairman of the transport group of London First, a business organisation set up to tackle London's problems, Mr Foy

has identified a number of risks that the group believes the government needs to assume in joint transport ventures. These include responsibility for losses caused by planning delays, changes in design of the project imposed by public bodies and delays in getting legislative approval.

"Taking responsibility for these types of risk, which are clearly not within the control of the private sector, would be unacceptable to shareholders," he says.

In between these two extremes lie grey areas, says Mr Foy, where the government needs to help private sector operators manage revenue risks, perhaps by guaranteeing a minimum income (and maybe sharing in excess profits). It is in such areas that the greatest difficulties have been encountered in forming joint ventures in which the Treasury can be satisfied that risk has been substantially transferred to the private sector.

A second significant obstacle to private and public sector partnerships is the Treasury requirement for competition for public sector contracts. This is a long-standing requirement in public sector contracts as a means of ensuring value for money, and fair competition.

However, the requirement can be a disincentive to companies coming up with new or innovative proposals which, once adopted, must then go out to competitive tender for implementation. A company which invests its own money in devising a project could then find that a competitor wins the contract to build it.

The government has promised to look into the intellectual property rights of project proposals, so that the companies which develop them can be paid for their efforts.

A better solution, according to one banker who is keen to participate in joint ventures, would be for the government to make early progress on creating a stream of joint projects which the private sector can bid for.

"If there are several similar projects coming up, companies will be prepared to invest in a bid on the basis that they will win a contract sooner or later," he says. "But with one-offs or occasional contracts, they are less willing to risk their capital."

And that is the nub of the government's problem in convincing the private sector that it is serious about the private finance initiative. Unless it can launch some joint venture projects soon, private partners will become increasingly sceptical about its intentions. Dispersing the growing scepticism requires early progress if the initiative is to succeed.

Estonia draws up reformers' blueprint



PERSONAL VIEW

Estonia has assumed the pioneer position among the post-Soviet republics in implementing political and economic reforms. This is due to a large extent to the political consensus among its citizens about the concept and pace of reforms, as well as the determination of its current leadership to carry them out. These reforms, started in 1989, were much accelerated after the country regained its independence following the attempted Moscow coup of 1991.

A new democratic constitution was adopted in June 1992 and free parliamentary elections were held in September. This resulted in the formation of the majority centre-right coalition government. In order to isolate itself from the economic chaos and inflation plaguing Russia and other post-Soviet republics, Estonia introduced in 1992 its own currency, the kroon, pegged to the German D-Mark, and a stabilisation programme. This was a great success. However, a severe drop in

industrial production caused by disruptions in inter-republic trade is threatening to overwhelm the Estonian economy with bankruptcies and unemployment.

To deal with the issue, the Estonian government has made restructuring and privatisation of state-owned enterprises its main task. So far, progress in privatising large enterprises has been slow, about 30 per cent of services and small enterprises have already been auctioned.

This spring, the Estonian government elaborated and then adopted in June a new, comprehensive law to integrate and simplify privatisation. The re-establishment of independence was legitimised by claiming continuity with the prewar Republic of Estonia. In privatisation, this has meant a policy based on restitution of property lost in 1940 after the country was incorporated into the Soviet Union and on compensation for exploitation by the Soviets.

To carry out the programme, an elaborate system of vouchers was instigated. The restitution scheme attracted more than 300,000 claims, of which about 15 per cent have been resolved. Where it has been

impractical to return property in kind, compensation vouchers are issued to claimants. In addition, "work contribution" vouchers are given out, based on years of work in Estonia between 1945 and 1991. These are interchangeable and can be used in the privatisation of housing, land, collective farm implements and state-owned enterprises, or redeemed for shares in the companies.

The government has made restructuring and privatisation of state enterprises its main task

privatisation fund.

While the voucher system has been implemented, commercial sales of property are proceeding on a pilot basis, with the Estonian Privatisation Agency having already sold 30 large, state-owned enterprises. This success bodes well for Estonia because of the interest shown by foreign, mainly Scandinavian and German, investors. The aim of the new privatisation

law is twofold. The first is to spell out the principles for the integration of these two aspects of privatisation policy: the use of citizen vouchers and commercial sales. A small percentage of shares, determined individually for each company, will be reserved for sale in exchange for citizen vouchers. The majority of shares will be sold for cash to strategic investors, in the tender for sale of 52 state-owned enterprises, announced in May.

The second major issue of this law is the creation of the State Property Agency. This will combine separate small and large enterprise privatisation operations and include a restructuring unit which will assume authority over all state enterprises and direct efforts to prepare them for privatisation.

Separate laws deal with the privatisation of housing, and of collective farms, three-quarters of which have been dismantled on the basis of resolved restitution claims or leases based on anticipated restitution. Another law creates a compensation fund, the shares of which can be obtained for vouchers. These laws create the legislative framework for privatisation and hopes

are high for rapid progress.

Estonia is ahead, not only of the post-Soviet republics but also of some east European countries, in its efforts to build a democratic society and a free market economy. It has a democratic consensus on the direction of its reforms, a legitimate government, a sound currency, and a credible economic transformation and privatisation programme that apply balances the needs of foreign investors with the desire for participation and a sense of justice of the local population. Fulfilment of its demonstrated promise could serve as a model to others in the former Soviet Union who have to travel the difficult and uncertain road of return from the communist system.

Dr Lucja Swiatkowski Cannon

The author was between March and May 1993 an adviser on privatisation to Lilia Hanu, Estonia's deputy prime minister

A family affair

One person seems to have been overlooked in all the gossip about who will take over the presidency of the European bank for Reconstruction and Development.

Jacques de Larosière, governor of the Bank of France, may be the natural front runner in the eyes of the French government. But getting the nod from Madame de Larosière may be a different matter.

De Larosière - due to retire from the Bank of France at the age of 65 next year - would certainly have the gravitas Attali lacked, but his wife may have other ideas. The owner of a chateau in Picardy, she played a strong role in persuading her husband to return to France in 1987 from his post in Washington as IMF managing director - a job he swapped with his countryman Michel Camdessus.

However, central bankers do soldier on, so it would be surprising if de Larosière did not accept the London-based job, if offered. In which case expect Jean Claude Trichet, top man at the French Treasury, to get the Bank of France job.

Youf-ful

Calling all hemp-exporters whose clever mothers are distant cousins of the US vice-president and who

play a risky game of outdoor lacrosse while wearing pink denim shorts - have we got news for you.

That estimable US trade publication Adweek, which keeps Observer's finger on the enfeebling pulse of the advertising industry, suggests you are excellently set up to endure the next recession. But why, well, may you ask.

In its latest issue is a list of current youth crazes, as identified by consultants RKG Youth Inc. They include AI Core, capital punishment, mothers, intelligence, the environment, taking big risks, lacrosse and coloured denims.

Artistic licence

Dyed-in-the-wool opponents of the Channel Tunnel will be happy to hear that there will soon be one less reason to use it.

From September it will no longer be necessary to cross into former enemy territory to inspect the Bayeux tapestry because a rather good replica resides much closer to home in Reading.

The soon-to-be-reopened Museum of Reading is planning to show off a 230ft Victorian replica of the famous eleventh-century tapestry recording William the Conqueror's invasion of England in 1066. The replica, presented to Reading a century ago by a patriotic alderman, is said to be a remarkably good copy.

However, it suffers from one defect. The Victorian

OBSERVER



'I can't wait to get home to my gun collection'

embroideresses made the naked male warrior put on a pair of trunks, and an overly-endowed stallion was cut down to size and appears as a gelding.

If you want to see all the naughty bits, a trip across the channel will still be necessary.

Reverse charges

While police chiefs may prove easy pickings when it comes to stealing mobile telephones, travelling locksmiths can be a tougher prospect.

Witness the one who had his phone nicked soon after being set

up in business by the Prince's Youth Business Trust.

Distraught at the loss, which cut him off from his main source of orders, he used another phone to get through to his own number and begged for the return of the instrument, offering £50 and no questions asked. The line went dead.

But his wife had an idea. She called the number, asked the man who answered if he was a locksmith, then on being told "yes" said she'd lost the key to her flat and would be come and help. After bidding the price up to £25, the man agreed.

When he arrived, the waiting police posse took him off to the lock-up.

Gone missing?

It's hard to believe, but it sounds as if something rather important may be missing from the new Battle of Britain memorial atop the white cliffs of Dover.

The granite statue of a young pilot, which was unveiled last Friday with a minimum of publicity by the Queen Mother, is meant to be a permanent tribute to those who served in the most famous air battle of the Second World War.

Although it has taken some time to raise the money, there is no shortage of big names on the Battle of Britain memorial trust notepaper. Robin Leigh-Pemberton, who stepped down as governor of

the Bank of England at the start of the month, is patron, air chief marshal Sir Christopher Foxley-Norris is president, and the trustees include defence minister Jonathan Aitken and Lord Tebbit, a former chairman of the Conservative Party.

Hence it could be rather embarrassing for all involved if a couple of famous names really have gone missing. According to one old airman who attended the ceremony, squadron leader Boleslaw Drobninski, the badges of the 302 and 303 Polish squadrons which decorate the memorial. The 303 squadron, which Drobninski commanded, was probably the most famous of all foreign squadrons serving with the RAF.

Hard to believe that such a high-falutin' lot could have committed quite such a resounding faux-pas.

Neighbours

"Is Charlie in?" asked the morning caller as the door was opened to him by a sad-faced woman. "You mustn't have heard," she faltered. "Soon after he came in from the pub last night, he collapsed and died."

The visitor staggered. "I'm terribly sorry," he said. "Were you with him when it happened?" The widow nodded.

"Well, did he say anything about lending me a tin of red paint?"



EC finance ministers promise tough action on public spending

By Lionel Barber in Brussels

EUROPEAN Community finance ministers yesterday pledged to take tough action to resolve the crisis in public finances among member states, and accepted that tax rises may be required to restore budgetary stability.

In response to a series of grim warnings from EC central bank governors from the 12 member states, ministers agreed that spending cuts alone may not be enough to reduce public borrowing, which has soared as a result of the recession.

Latest estimates by the European Commission, show that the aggregate public sector deficit as a proportion of Community gross domestic product is likely to rise to more than 6 per cent this year - the highest level recorded in the 36-year history of the EC.

Despite mounting evidence of

the fiscal crisis facing EC member states, ministers insisted they would stick to the strict targets for economic and monetary union laid down by the Maastricht treaty, including a commitment to reduce individual budget deficits to 3 per cent of gross domestic product.

Mr Philippe Maystadt, Belgian finance minister who chaired the meeting, said governments had "precious little leeway" for relaxing budget deficits to offset the effects of the recession. That would be shortsighted, he said.

Mr Kenneth Clarke, UK chancellor of the exchequer, said Britain remained committed to the Maastricht targets. He left open the possibility of tax rises in the November budget to reduce the UK's £50bn deficit.

During their meeting yesterday, ministers gave Mr Clarke a relatively gentle ride when dis-

cussing the UK's "convergence plan" - the forecasts for meeting the Maastricht criteria for EMU.

Ministers described the UK plan as "ambitious" but "based on realistic assumptions". A more vigorous budgetary adjustment might be necessary, especially in the short term, if the pace of economic recovery proved slower than expected. Two weeks ago, Treasury officials from member states meeting in the EC's monetary committee had asked pointed questions as to whether the UK was overestimating the impact of future economic growth on cutting the deficit.

Mr Clarke said the UK's forecasts contained tougher targets on spending than convergence plans submitted by other member states. He also noted the UK was likely to grow faster than major EC competitors in 1993 and 1994.

The meeting was overshadowed by warnings from EC central bank governors and the EC's economic policy committee about the fiscal crisis in the EC.

In a submission to EC finance ministers, the central bankers said: "Concern about the present state of public finances is particularly warranted since the rise in budget deficits over the last few years cannot simply be ascribed to the cyclical downturn. They also reflect to a significant extent structural factors which have been adding to imbalances since 1989."

Signalling agreement, finance ministers stressed that structural measures to correct budgetary imbalances were essential so as to return the EC to higher growth and to create new jobs.

Community ministers build on summit growth initiative, Page 2

After tourists pay £45 for a £7 theatre seat, agencies must tell face value UK to clamp down on ticket resales

By Antony Thorncroft in London

THE BRITISH government is to clamp down on ticket agencies which exploit London theatre-goers, especially tourists. Some unwary visitors have ended up paying £45 (\$66) for a £7 balcony seat at Miss Saigon.

Resellers of tickets for theatres, concerts and similar events will be forced to tell the customer the standard of the seat being offered, including its face value. Baroness Dainton, Britain's consumer affairs minister, said yesterday: "Unless they buy directly from the box office, consumers can often pay £50 or more for a ticket whose face value is much lower, say £6." She added: "People may not find this until they collect the ticket just before

the performance."

Ms Susan Whiddington, development officer of the Society of West End Theatre, said: "This is the best news we could possibly have". Her organisation receives up to 30 complaints a week from disgruntled tourists.

The new legislation is not aimed specifically at tourists (or scalpers) who sell tickets in the street. The main problem is the 130 or so ticket agencies that have sprung up throughout the West End theatre district and which have an aura of respectability. They extract exorbitant sums from theatre-goers, give them a voucher and then arrange for a low-price ticket to be collected at the theatre.

The agencies often discover when visitors are looking for a ticket for the

performance on the evening before departure, thus reducing the opportunity for redress.

Although most of the trade is in tickets for the handful of popular, sold out shows like *Phantom of the Opera* and *Crazy for You*, the agencies also take advantage of visitors' ignorance by selling them tickets for plays that are easy to get into.

One recent complaint came from an out-of-town holiday-maker who paid £55 for a £14 ticket for *The Mousetrap*, which has been running for more than 40 years.

The great majority of the 50 theatres in the West End have tickets readily available for most weekday performances this summer. The recession has reduced audiences by 3 per cent from last year. Half-price tickets to some

shows are sold from an official booth in Leicester Square, and other two-for-one schemes exist.

But the agencies, and the tourists, will expect a bonanza from the opening last night of the latest Sir Andrew Lloyd Webber musical *Sunset Boulevard*.

Although Sir Andrew tried to limit the opportunities for the tourists to get their hands on tickets by restricting access to the box office at the Adelphi Theatre, and to just one agency, Ticket Master, tourists have been observed queuing for the six tickets available to each purchaser and then changing clothes to join the line again for another six. A few top price tickets were being sold outside the theatre last night for £200 or more.

International arts guide, Page 11

Franc declines despite support

Continued from Page 1

out of the French currency. "It is a D-Mark phenomenon," said Ms Marie Owens Thomson, international economist at Midland Global Markets. "To avoid a crisis in the ERM we need a significant downward move in German interest rates," she said.

Economists in Paris were sanguine about the franc's prospects. "We are in for a bumpy ride," said a currency expert at a French bank. "But the franc has withstood several crises and the government cannot afford to retreat on its commitment to the current ERM parity."

A survey carried out by Idea, the London-based financial information company, showed that expectations for the franc among European foreign exchange dealers were gloomy. On average, 40 per cent expect it to be devalued before the end of the year.

Israelis hold top-level talks with PLO

Continued from Page 1

In January repealed the law banning contacts between individual Israelis and PLO members. It is clear that a growing number of top Israeli politicians favour abandoning the taboo.

Last week a Labour MP named 11 members of Mr Rabin's 18-strong cabinet who, he said, were in favour of opening direct talks with the PLO to break the deadlock in the peace talks. It is widely believed that Mr Haim Ramon, the health minister and a moderate, telephoned Mr Arafat last week.

Israel Radio also said yesterday that Egyptian foreign ministry officials had said Israel had agreed in principle to change the terms of the peace process which excludes the PLO.

Mr Gad Ben-Ari, spokesman for Mr Rabin, said all the negotiations between "us and the Palestinians are and will be" within the framework of the peace talks.

However, Mr Dan Cohen, a Labour MP, said the PLO had told him that the contacts with the Israeli government were being undertaken through members of the Labour party. The MP, he said, were acting in the grey area between official and unofficial contacts.

He said the talks focused on the "Gaza first" option - a proposal to hand over the occupied Gaza strip to an autonomous Palestinian authority as soon as possible and before any transfer of authority in the occupied West Bank.

The discussions also included human rights in the occupied territories and how to reach an agreement on a joint statement of principles setting out terms for Palestinian interim self-rule, he added.

Present negotiations between the Israelis and the Palestinian delegation to the talks remain stalled after their tenth and latest round in Washington.



Yasser Arafat: talks failed

Hard grind for Tomkins

THE LEX COLUMN

Nine months after the acquisition of Rank Hovis MacDougall, it is clearer than ever that the deal will make or break Tomkins' reputation. The trouble is the market has no firm feel for it yet, although a 5 per cent fall in Tomkins' share price yesterday, following a bout of underperformance, highlights its suspicions. If Tomkins can squeeze more value from RHM's stodgy dough then both confidence and a premium rating will be restored. That would enable the conglomerate to skip merrily on to new prey in a few years' time. With net cash of £120m at the year-end and the ability to milk yet more from its mature businesses, Tomkins should certainly have a strong launchpad.

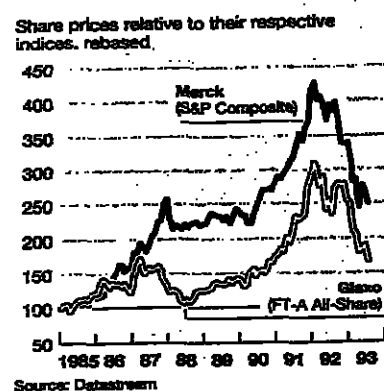
Yet worries about RHM may continue to undermine Tomkins' rating. The paucity of detailed information about RHM's progress does little to dispel doubts. Tomkins appears to have successfully managed the tricky task of maintaining market share while cutting baking capacity by 7 per cent. Combined with a surprising rise in market volumes, this has helped bring the supply-demand balance closer to equilibrium. The shedding of 2,000 jobs will also bring significant cost benefits. Still, judging by its thin contribution to Tomkins' results, RHM had still not reached the bottom of its cycle when it was bought. RHM's shareholders must be smiling at their good fortune.

So far, Tomkins' response to the doubters has been: trust us. The company's fine financial record certainly commends it. But with Tomkins deriving little uplift from its existing businesses, the market is right to suspend judgment.

Merck

The uncanny symmetry between Merck and Glaxo continues to impress. The leading pharmaceutical companies in the US and Europe peaked against their local markets within a fortnight of each other in January 1992, after a bull run lasting the best part of a decade. Both shares have since fallen by 40 per cent. Now the unexpected resignation of Mr Richard Markham from Merck mirrors that of Mr Ernest Mario from Glaxo in March. Both were appointed over the heads of established candidates as heirs apparent to a chairman approaching retirement. Their departure throws wide open the question of succession. Without a full explanation, it is difficult to believe Mr Markham's decision

FT-SE Index: 2830.9 (-12.3)



Source: Datastream

to bow out owes nothing to issues of strategy. A spate of management changes elsewhere in the industry suggests more general pressures - the more aggressive attitude of governments on drugs prices being a case in point. Merck has so far made a reasonable fist of adapting to tougher conditions. Its joint venture with Johnson & Johnson in over-the-counter medicines dates from 1989, for example, while Glaxo has yet to announce its plans in this area.

That might explain the relaxed attitude of investors yesterday. But Merck has yet to prove that it can bargain successfully with bulk buyers of healthcare in the US. It remains to be seen whether the policy of discounting to defend market share introduced by Mr Markham is carried forward. Either way, Merck - like others in the industry - will remain under pressure to cut costs in the interest of earnings growth, even if that means management friction and the sacrifice of sacred cows.

MFI

MFI's board seems content to wring its hands and blame economic conditions for the poor profits figures it turned in yesterday. That looks a little thick since the management picked up £11m in bonuses for successfully floating the company after a few weeks of improved trading in 1992. Doubtless MFI's board has had to struggle with difficult trading conditions over the past five years. But then, so has every body else. Perhaps the bonus was simply a reward for good timing.

MFI argues that devaluation had a disastrous impact on its business, yet

interest rates are now four percentage points lower than at flotation and there are faint stirrings in the housing market. The dilapidated home improvement business would surely be a wasteland if sterling were still in the ERM and interest rates 10 per cent. The exit from the management buy-out thus leaves something of a nasty taste in the mouth.

There are also reasons to be sceptical about the company's much-vaunted operational gearing. Consumers may be moving house a little more frequently, but they are loath to spend money on high-margin kitchen units which cannot easily be moved with them. Those tax increases already announced will hit MFI's blue collar customer base particularly hard. The sag in sales and margins which followed pressure from other DIY retailers earlier this year is also worrying. Even the most optimistic profits estimates leave MFI at a 30 per cent premium to the market. On that basis the market's love affair with recovery stocks is surely overdone.

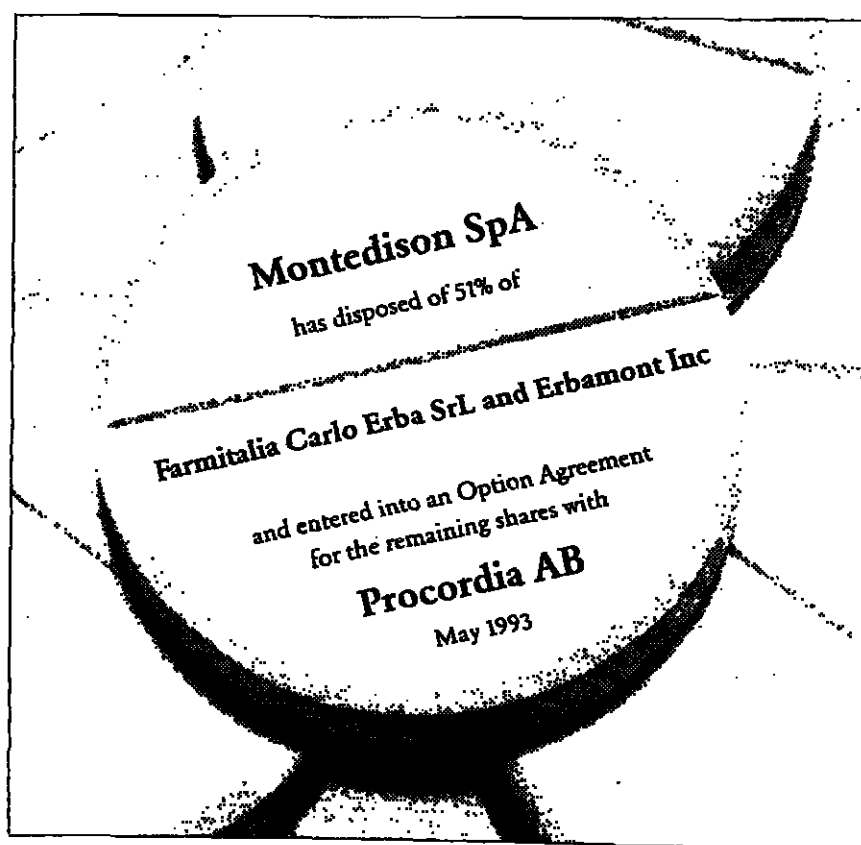
UK newspapers

Effective competition often involves doing what your competitors like least. On that basis, Mr Rupert Murdoch has delivered a dirty dig at Mirror Group Newspapers by launching a price war in the tabloid market. Just as MGN was beginning to recover its poise, it now faces the prospect of a long and bloody circulation war. Its knee-jerk response in cutting the Mirror's cover price to 10p for a day may have been an effective spoiler but hardly provides a sustainable long-term strategy. MGN's administrators now face a far trickier task in working out how to dispose of their 64 per cent holding.

The biggest loser, though, may be the Daily Star. The timing is especially unfortunate given its parent, United Newspapers, is already having a rocky ride persuading shareholders to back a £190m cash call. Nevertheless, the muted response of United's share price is understandable. The Daily Star is only a small part of United's business while its core middle market newspapers are likely to emerge unscathed.

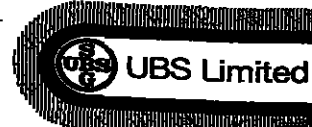
As for News International, it can well afford the probable loss of £1m of revenue a week as it attempts to stimulate the Sun's flaccid sales. But past industry experience has shown that low prices are no substitute for editorial appeal.

The right prescription for Europe's largest disposal in pharmaceuticals.



UBS advised Italy's Montedison in the sale of its pharmaceutical interests to Sweden's Procordia. The transaction, which created one of Europe's biggest pharmaceutical companies, was the largest cross-border disposal ever seen in the industry in Europe. It was also one of the most complex, beginning with a controlled auction process and leading to a transaction which included an initial cash purchase, an earnout formula and a put and call Option Agreement for the remaining shares. Subsequently, UBS arranged for Montedison to dispose of its rights under the Option Agreement to Holdback Holdings Limited.

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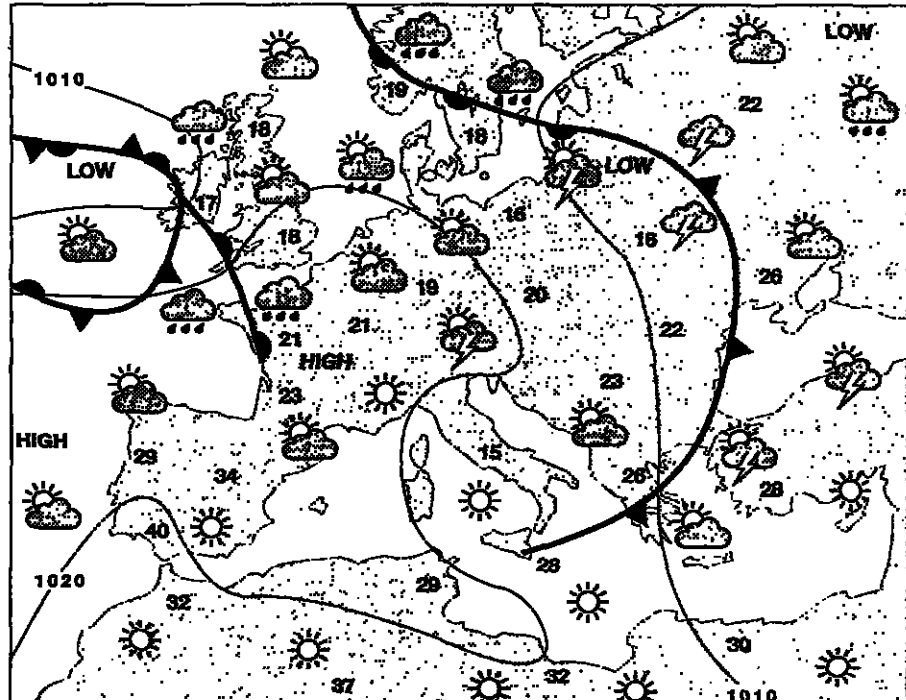
FT WORLD WEATHER

Europe today

High pressure will give sunny spells in France, Germany and the Low Countries. The northern Netherlands and Germany will have a few showers moving in from the North Sea. The cool air will keep the temperatures rather low for July. In France, temperatures will only rise to 20C-25C. A depression from the Atlantic will bring cloud and rain to Ireland. This will slowly move towards the Continent. As a result, north-west France will have some rain as well. A frontal zone over Greece will extend towards the Baltic States and southern Scandinavia and will produce several thunder showers over south-eastern and eastern Europe. Southern Norway and Sweden will have rain.

Five-day forecast

By tomorrow, rain will spread over the Low Countries and northern France. A new frontal disturbance from the Atlantic will reach the UK and by Friday a fair number of showers will fall over central Europe. Warm air over Scandinavia will give afternoon temperatures well above 20C. There will be bright spells, except in southern areas and Finland. A warming trend in southern Europe will cause afternoon temperatures to gradually rise to 30C-38C by Saturday.



TODAY'S TEMPERATURES

Location	Temperature	Location	Temperature	Location	Temperature
Abu Dhabi	sun 30	Chicago	sun 17	Faro	sun 32
Accra	sun 28	Cologne	sun 19	Frankfurt	sun 20
Algiers	sun 30	Copenhagen	cloudy 28	Geneva	sun 19
Amsterdam	sun 19	Dakar	sun 31	Glasgow	cloudy 18
Athens	sun 31	Dallas	sun 34	Hamburg	sun 17
Bangkok	sun 34	Darwin	sun 30	Helsinki	sun 21
Barcelona	sun 25	Dubai	sun 42	Hong Kong	sun 31
Beijing	sun 33	Dublin	sun 17	Honolulu	sun 31
Belfast	sun 16	Edinburgh	sun 19	Ile of Man	sun 21
Belgrade	sun 18	Caracas	sun 31	Isle of Man	sun 21
				London	sun 17
				Los Angeles	sun 28
				Luxembourg	sun 19
				Lyon	sun 21
				Madrid	sun 36
				Manila	sun 30
				Moscow	sun 15
				Munich	sun 16
				Nairobi	sun 22
				Naples	sun 25
				Nassau	sun 28
				New York	sun 27
				Nice	sun 28
				Nicosia	sun 38
				Oso	sun 20
				Paris	sun 17
				Perth	sun 17
				Prague	sun 17
				Ri de Janeiro	sun 24
				Rangoon	cloudy 30
				Rosklevik	sun 13
				Rybach	sun 40
				Rome	sun 27
				S' Francisco	sun 23
				Seoul	sun 25
				Singapore	cloudy 31
				Stockholm	cloudy 22
				Strasbourg	sun 21
				Taipei	sun 28
				Taipei	sun 28
				Tokyo	sun 28
				Toronto	sun 28
				Turkey	sun 28
				Vancouver	sun 20
				Venice	sun 28
				Vienna	sun 19
				Warsaw	sun 17
				Wellington	sun 13
				Winnipeg	sun 22
				Zurich	sun 18

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INTERNATIONAL COMPANIES AND FINANCE

MFI sees improvement after profits drop 39%

By Neil Buckley in London

MFI, the UK furniture group, sent a mixed message to the City yesterday, reporting a 39 per cent fall in pre-tax profits to £40.2m (\$59.7m) thanks to disappointing sales. But it said trading was currently 3 per cent up on last year.

The upbeat trading statement during the company's first full-year results presentation since its flotation last July sent the shares up 1½p to 128½p.

"We are trading 3 per cent ahead, but 11 weeks is nowhere near a trend, and we are still cautious," said Mr Derek Hunt, chairman.

Turnover for the year to April 24 fell 6.7 per cent to £603.9m.

Mr John Randall, finance director, said trading had been particularly disappointing during the 10-week new year sale, when MFI makes about one-third of its turnover.

While this partly reflected lower levels of activity in the housing market, he admitted MFI had made mistakes in its promotional campaigns which led to competitors stealing market share. MFI had since adjusted some prices and revamped its advertising to emphasise its competitiveness.

Sales suffered most in kitchens and bedrooms, which carry a higher profit margin because MFI manufactures them itself.

Gross margins fell 1.7 points to 67.4 per cent because of the unfavourable sales mix, and exchange rate movements.

But Mr Randall said the company's progress in cutting costs made it optimistic it could increase profits next year, even if the economic upturn was weak.

MFI has reduced overheads by 7.2 per cent through cutting staff by 800, investing in new systems, reducing stock, and purchasing freeholds on four previously leasehold properties.

Surplus space in some stores has been sub-let, leading to lower costs, and rental income for the year of £7.2m.

Mr Randall said at least another 100,000 sq ft of surplus space would be leased out in the current year, taking rental income to £8.5m.

Analysts expect costs to fall further this year and, based on an improvement in sales of 3 per cent or 4 per cent are forecasting pre-tax profits of £60m to £65m this year.

Proceeds from the flotation allowed MFI to redeem its preference shares and reduce borrowings to £62m, taking gearing from 80 per cent to 52 per cent. Since the year end, the company has received £21m from the sale of its 20 per cent stake in Carpetright. Sir Philip Harris's carpet retail chain, which was floated last month.

Pro-forma earnings were 4.5p against 7.4p, but the final payout was held at 2.5p, making a total of 3.75p.

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Sharp fall at Sabena prompts shake-up

SABENA, the Belgian national airline, said its first-half earnings fell by BFR1.5bn (\$45m) reflecting the difficult conditions in the international air transport industry. Reuters reports from Brussels.

Sabena gave no final figure on its first-half 1993 earnings. It said the earnings drop reflected the serious structural crisis in the sector and the drop in prices this was causing.

The economic crisis, currency devaluations in a large number of European countries and the political events in central Africa.

The board of directors had approved measures worth BFR5bn to deal with the crisis in the air transport sector. The package involved an adjustment of wage costs during three years to save BFR2bn.

Sabena said it included measures to optimise its intercontinental and European networks, where the hub and spoke network at Brussels airport would remain the focus of Sabena's strategy.

Sabena said there would be large savings by making work organisation flexible. This would be done by striking a balance between the workload and available workforce in accordance with the agreement with organisations representing the workforce.

Sabena employs about 9,000 staff.

Sabena is 37.5 per cent owned by Air France and about 49 per cent by the Belgian state.

Suez disposes of subsidiary

COMPAGNIE DE SUEZ has sold its 99.32 per cent stake in Compagnie Industrielle Maritime for FF936.35 (\$147.2m), a total of FF795m (\$147.2m), to Compagnie Generale Euro-peenne de Stockage, Reuters reports from Paris.

The operation was undertaken on June 30 and is to be followed by a procedure under which remaining shareholders in Maritime can sell their shares at the same price.

Ericsson issue raises SKr2.2bn

By Hugh Carnegie in Stockholm

ERICSSON, the Swedish telecommunications group, said yesterday it had raised SKr2.17bn (\$301.3m) through a convertible bond issue to stiffen its financial muscle in fast-growing markets where competition was intense from rivals such as Siemens of Germany and AT&T of the US.

Ericsson said orders were set to grow by more than 30 per cent this year to more than \$9bn and it needed the cash for "acquisitions, financing requirements by customers and because of general problems in the financial market" - although it declined to be more specific.

"This is a way to try to ensure we have the financial wherewithal in a relatively tight financial market," the company said.

Ericsson has been riding a rise in new orders for more than a year, particularly in its radio communications division. It has established a 40 per cent share of the world market for mobile telephone infrastructure systems and has signalled a significant improvement this year on last year's SKr1.30bn pre-tax profit.

It has been growing fast in

China, which accounts for 7 per cent of group sales, and is anxious to ensure it can continue to compete for business where customer financing is required.

"In China and even in some other markets there may be a need for us to help the customer with the financing of deals," the company said.

The issue of 4.25 per cent convertible subordinated debentures was fully subscribed, with 50 per cent taken up by foreign investors. The bonds will mature on June 30, 2000, with conversion to B shares available from August 2 at SKr300.

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Asko sells remaining AVA stake

By David Walker in Frankfurt

ASKO Deutsche Kaufhaus, one of Germany's biggest retailers, said yesterday it had sold its remaining 7 per cent stake in AVA Allgemeine Handelsgesellschaft der Verbraucher, another quoted German retailer in which Asko used to own a 50 per cent interest.

In a brief statement, the Saarbrücken-based Asko said the sale of its entire AVA stake since February had raised more than DM1bn (\$625m). Mr Klaus Wiegand, chief executive, said that the sale had been achieved at slightly above book value.

"With this step we have completed the most important part of our 'disinvestment programme', the chief executive said. Asko, majority-owned by Metro, the large Swiss-based retailer, expanded rapidly in the late 1980s but has embarked on a drastic rationalisation plan in order to cut its debts, which stood at DM4.7bn at the end of March.

The Bielefeld-based AVA, nearly 50 per cent owned by Edeka Zentrale, had turnover of DM6.8bn last year, up from DM5.1bn in 1991. It operates in the discount market and derives 60 per cent of its turnover from food retailing.

Shares in Mensucat Santral suspended on Istanbul SE

MENSUCAT Santral, one of Turkey's leading textile companies, and its listed affiliates, have been suspended from trading on the Istanbul exchange. The move follows the parent company's application to the courts for protection from its creditors, which are estimated to be owed some TL2,200bn (\$213m).

The company is controlled by the Bezmen family. Last week the group sought a court-arranged agreement with its creditors, to allow it to restructure its debts with some 23 banks, which are owed about TL1,500bn.

The creditors list includes the foreign banks, UBS, Standard Chartered, Bankers' Trust and West Deutsche Landesbank.

However, the banks most exposed are those of the local Culurova industrial conglomerate - Interbank, Pamukbank and Yapi Kredi - which are owed TL600bn.

The court has to make a decision within 10 days. If banks refuse to agree to a restructuring, the company will be forced into bankruptcy. Bankers say a final settlement may take up to six months. The company has to show it has a positive net worth and that its assets are greater than its liabilities.

Furthermore, two-thirds of the creditors are required to agree to the planned restructuring.

Yesterday, Mr Halil Bezmen, chairman and controlling shareholder, was referring all enquiries to his lawyers.

Mensucat is one of the country's leading producers of textiles. Turkey's largest export item, earning more than \$1bn a year.

Mr Bezmen was described yesterday by a foreign consultant as one of the best textile

Espirito Santo in NY placing

By Peter Wise in Lisbon

ESPIRITO Santo Financial Holding, which heads one of the largest financial groups in Portugal, has placed 2.65m American depository shares, on the New York stock exchange.

The shares were placed at \$29 each and are being quoted at around \$27, said Mr Ricardo Espirito Santo Salgado, head of the group.

The offer was increased from an original 2m shares because of heavy demand, which would have been enough to buy 5.2m

shares. A total of 1.9m shares were placed with institutional investors and the remainder with individuals in the US and Canada. This was the second placement of shares in New York by ESFH, which is quoted in London and Luxembourg.

Some 28 per cent of the group's capital is held by US and Canadian investors. Grupo Espirito Santo continues to hold a majority of the company followed by Grupo Freres of Belgium and Grupo Agnelli, which together hold 9 per cent.

Foreign institutions will be

allowed to buy an 80 per cent stake in Portugal's state-owned Banco Pinto e Sotto Mayor when it is sold in October. Mr Fernando de Almeida, the bank's president said, Reuters reports from Lisbon.

"The [BPSM privatisation] law does not set any limit on foreigners," Mr Almeida said.

The government would approve the law outlining conditions for the BPSM sale in the next few days. "Then there will be three months for candidates to apply, so the operation should occur in October," Mr Almeida added.

Mobile Communications 7 September, 1993

Cable & Satellite Broadcasting 5 October, 1993

International Telecommunications 18 October, 1993

First Greece state sale oversubscribed

THE GREEK Ministry of National Economy raised Dr7.17bn (\$32m) through the partial privatisation of its monopoly sugar producer, Hellenic Sugar Industries, according to the ministry's advisers, Reuters reports from London.

It was the first public flotation of a state-owned company in Greece and paves the way for the privatisation of OTE, the telecommunications company, due later this year.

"We are delighted with the outcome of the first public offering in Greece's extensive privatisation programme," Mr Stephanos Manos, Greek minister of national economy, said in the statement issued in London.

The public offering of 4,652m bearer shares at Dr1,200 was more than five times oversubscribed and the private placement for employees and sugar beet producers more than one and a half times over-subscribed, the statement said.

Following the part-privatisation, the state-owned Agricultural Bank of Greece holds 70.46 per cent of HSI.

"Following this success, we look forward to the privatisation of OTE later this year with a great deal of confidence," Mr Manos said.

HSI has five factories and produces over 310,000 tonnes a year. It had 1992-93 pre-tax profits of Dr6,318bn.

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US\$150,000,000



Homestake Mining Company

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S.G. Warburg & Co. Inc.

June 1993

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US\$200,000,000

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Goldman, Sachs & Co.

Merrill Lynch & Co.

Morgan Stanley & Co.
Incorporated

June 1993

We're always improving our track record

	1990	1991	1992
Sales	19,964	22,964	27,167
Capital Expenditure	10,610	11,827	10,637
Net Profit	1,367	1,413	1,425

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At Stet, we treat every project as a challenge, every achievement as a reason to set new goals. It's this attitude to business that confirmed STET as one of Italy's entrepreneurial successes of 1992. The acquisition of Finsiel in Italy and the expansion of our worldwide operations has meant that STET now comprises more than 100 telecommunication companies. The STET Group activities include manufacturing and engineering, network installations, services management and state-of-the-art data management and satellite communications systems. Working together as a group, we are taking Italian telecommunications into the next century. We know where we're going and we're getting there. Fast.

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INTERNATIONAL COMPANIES AND FINANCE

Record second-quarter earnings at Fannie Mae

By Patrick Harverson
in New York

THE FEDERAL National Mortgage Association (Fannie Mae) reported record second-quarter profits yesterday as the favourable domestic interest rate environment continued to provide a foundation for strong earnings growth.

The company, which is the largest mortgage provider in the US, announced profits of \$458.8m in the second quarter, up 14 per cent on its earnings in the same three months of 1992.

It was the 22nd consecutive record-breaking quarter for Fannie Mae and was achieved despite \$39.8m in after-tax losses incurred from the call of debt at a premium and the repurchase of high-coupon debt.

In the first quarter of this year Fannie Mae earned \$443.6m, which took six-month profits to \$902.4m, an increase of 15 per cent on the previous first half and on target for annual earnings to outpace the \$1.62bn achieved in 1992.

Mr James Johnson, Fannie Mae's chairman, said a number of factors were behind the latest record quarter, including strong growth in the company's mortgage portfolio, increased interest income from the investment of proceeds from repaid mortgage-backed securities, and continued high levels of miscellaneous income, especially fees earned from the sale of REMICs (real estate investment conduits).

Fannie Mae's net interest income jumped 22 per cent to \$632.1m following a 21.4 per cent increase in the size of the

company's net mortgage portfolio to \$170bn and a widening in its net interest margin (the difference between the interest it earns on mortgage loans and the interest it pays to borrow money) from 139 basis points to 143 basis points.

The readings on the state of the US housing market suggested that there has been little change in conditions over the past year.

Although Fannie Mae's acquisitions of single-family foreclosed properties rose slightly in the second quarter to 2,790, its serious delinquency rate for single-family loans, a key indicator of credit quality, declined to 0.59 per cent in May, down from 0.60 per cent in May 1992.

The news of record earnings lifted Fannie Mae shares 1 1/4 to \$66 3/4 on the NYSE.

Coors to cut white collar staff by 20%

By Karen Zagor in New York

ADOLPH Coors, the third biggest US brewer, is to cut 500 jobs, or about 20 per cent of its white collar workforce, in an attempt to reduce costs and improve long-term profitability.

Coors, which is trying to compete more successfully with market leaders Anheuser-Busch and Philip Morris, hopes to achieve the job reductions through enhanced early retirement packages, incentives for voluntary redundancy and attrition.

The company said the job cuts were part of a wider plan which will include reducing inventories of raw and finished goods, improving productivity, using excess capacity and increasing the effectiveness of market spending.

In addition to reducing general and administrative costs, Coors plans to farm out a large part of its marketing services and field marketing.

It said it would create a free-standing, independent marketing services company - to be called Front Range Communications - which will provide marketing support for Coors ranging from merchandising to trademark sales.

About 100 Coors employees will be offered jobs in the new agency.

Mr Leo Klei, president and chief operating officer, said: "Coors Brewing Company has outpaced the industry in volume growth rate for eight consecutive years."

"At the same time, we have lagged in providing adequate returns to our shareholders. We are committed to improved profitability while continuing to build our competitive position in the marketplace."

Mr Arthur Wegner has been appointed chairman and chief executive of Raytheon's Beech Aircraft unit, from July 19, Reuter reports.

Mr Wegner, also appointed a senior vice president, succeeds Mr Max Black, who remains Raytheon president and group executive for aircraft products.

Apple reduces prices to maintain sales momentum

By Louise Kehoe
in San Francisco

APPLE Computer yesterday announced further reductions in the US prices of several of its personal computer products.

The move followed reductions in May and June, as the company, which last week announced deep job cuts, struggles to maintain its sales momentum amid an industry-wide price war.

The latest round of price cuts applies to Apple's popular Powerbook notebook computers as well as its highest performance Macintosh Quadra models.

In addition, Apple expanded a rebate promotion to cover the Performa product line, which is aimed primarily at consumers.

"The price reductions, and the Performa rebates, are part of our overall company strategy to take aggressive actions in order to increase our market share," said Mr Bob Puetter, president of Apple USA.

"With these actions, we are making some of our most popular products more competitive."

Apple reduced the US price of its Macintosh Quadra 950 systems by up to 20 per cent and also cut the price of its recently introduced workgroup server computers by up to 20 per cent.

Powerbook prices have been reduced by seven to 34 per cent. Buyers of Apple's Macintosh Performa PCs will receive cash rebates of \$100 to \$300.

Despite the price cuts, Apple's share of the world PC market is stagnating, accord-

ing to industry analysts, and the company's profit margins have declined.

In a move to boost profits the company said last week that it would lay off 2,500 people, or more than 15 per cent of its worldwide workforce, over the next 12 months.

Most of the job cuts are due to occur this month.

Apple has also frozen pay increases for all employees for an indefinite period, and the company's top executives must take a 5 per cent pay cut, the company said.

Mr Michael Spindler, Apple president, who was promoted to chief executive officer last month, has declined to make any comment on the cost-cutting moves.

Mr John Sculley, who remains chairman of the company, is on sabbatical.

Northwest Airlines close to union deals

By Karen Zagor

NORTHWEST Airlines, the fourth largest US carrier, yesterday secured a tentative agreement with its machinists' union and an agreement with the Teamsters' union is believed to be imminent.

The airline, which is integrating its operations with those of KLM Royal Dutch Airlines, needed significant labour concessions to remain operating outside the protection of the bankruptcy courts.

Last week it ratified an agreement with its pilots' union which will save the carrier \$365m over three years.

Northwest has agreed that \$61m of the savings from its pilots could come from work-rule changes instead of direct wage and benefits cuts.

There is also a provision to give all employees the choice of being repaid for their concessions within 10 years, or they may choose to receive as much as 37.5 per cent of the common stock in the company.

Previous agreements had called for employees to receive a 30 per cent stake in the airline.

The machinists' pact replaces an agreement which was rejected by union members last month.

The terms of the new agreement are believed to be similar to those of the pilots' agreement. Northwest is now expected to reach an agreement with its Teamsters' union shortly.

Ontario Hydro sees bigger loss

By Bernard Simon in Toronto

ONTARIO Hydro, North America's second-biggest power utility, has raised its 1993 loss estimate to C\$1.6bn (US\$1.25bn), citing slack demand for electricity, write-offs related to restructuring, and continuing problems at a nuclear power station.

Long-term borrowings this year are also likely to rise from C\$3.2bn to C\$3.6bn, due to lower funds generated from operations and an increase in the amount of bonds called so far this year.

A further C\$400m increase in the borrowing requirement will be necessary if debt-re-

structuring proposals are approved.

The provincially-owned utility, which is based in Toronto, earlier this year forecast a break-even in operations. But it said yesterday that it now expected a C\$200m loss.

It ascribed the setback to a variety of factors, ranging from the weak economy to unusual weather patterns and higher fossil-fuel energy costs. It also said the economic outlook for future years was less rosy than anticipated.

The extent of this year's loss will probably result in the depletion of the utility's fund for rate stabilisation and contingencies, which stands at

about C\$1.6bn. However, it reaffirmed its earlier promise to freeze electricity rates next year following several years of steep increases.

The rates freeze was among the early moves made by Mr Maurice Strong, who organised last year's Earth Summit in Rio de Janeiro, when he took the reins of Ontario Hydro earlier this year.

Mr Strong pledged a thorough shake-up and has also given notice of several thousand layoffs.

However, Energy Probe, a lobby group, expressed doubts yesterday whether the promise to keep rates unchanged next year can be met.

Alcan joins review of Kemano project

By Robert Gibbons in Montreal

ALCAN Aluminium is joining a public review of its plans to complete the Kemano hydro expansion in British Columbia.

The company has spent C\$500m (US\$391m) towards completing the project and will invest more than C\$500m on further construction.

Kemano's first stage was built in the 1950s to support Alcan's 272,000 tonnes-a-year smelter nearby. Alcan's Canadian smelting capacity is 1.1m tonnes.

The company suspended work on the Kemano project in 1991 after a federal court ruled the project must go to federal environmental review. This

was reversed by the appeal courts, which found Alcan had fully met a 1987 agreement with the federal and British Columbia governments.

Last January the provincial premier Mr Michael Harcourt said the British Columbia Utilities Commission would conduct the public review and report by September 13.

GM cautious on third quarter

GENERAL MOTORS is optimistic about its second-quarter sales results but third-quarter production schedules are not overly aggressive, Mr John Smith, the group's chief executive officer, said yesterday.

Reuter reports.

Mr Smith, speaking to reporters at a US-Japan business conference in Cleveland, said GM had a "good" second quarter. He added that the US car maker's vehicle sales were "much stronger than anyone else on the retail side."

However, he said there was still a lot of uncertainty in the market place and GM had not been too ambitious in planning third-quarter production.

According to Ward's Automotive Reports, GM plans to produce 655,000 cars in the third quarter, up 46.9 per cent from a year earlier. It also intends to produce 380,000 trucks in the third quarter, up 26.2 per cent from the third quarter of 1992. "Those schedules don't look overly optimistic," Mr Smith said.

He said the European vehicle market was still very weak, but added that GM's European operations were performing satisfactorily. "We're satisfied with how we're doing" in Europe, he said.

Meanwhile, General Motors' Powertrain Group said it has agreed to supply Toyota Motor

Manufacturing USA with iron engine blocks for Toyota's 2.2 litre engine beginning in mid-1994.

The blocks, destined for Toyota Camrys built in Georgetown, Kentucky, will be produced at GM's Defiance, Ohio, facility. GM said it would provide 180,000 blocks annually for the 16-valve engines.

GM said the agreement was part of a strategy to expand the business to secure jobs for General Motors and United Auto Workers-represented employees.

GM Powertrain's plant in Defiance manufactures grey iron and nodular iron castings and employs 3,773.

AlliedSignal sets up French offshoot

ALLIEDSIGNAL Automotive, a unit of New Jersey-based manufacturing group AlliedSignal, is to set up a global automotive brake and friction material business, headquartered in Drancy in France, AP-DJ reports.

AlliedSignal said the unit, AlliedSignal Braking Systems, will be its first outside the US.

The group will also maintain offices at AlliedSignal Automotive's headquarters in Southfield, Michigan.

The new company will be headed by Mr Stephen Rabinowitz, formerly vice president of AlliedSignal Friction Materials.

Mr Rabinowitz said the brake business represents

about half of AlliedSignal Automotive's annual sales of \$4.5bn.

The new subsidiary will provide "complete braking systems capability, as well as... components, while reducing cycle times and taking advantage of synergies in product development, testing, sales and marketing", he said.

Chile purchase by McGraw-Hill

McGraw-Hill, the US publisher, has acquired Distribuidora Ciencia y Técnica, a Chilean book distributor, Reuter reports. Terms were not disclosed.

Distribuidora Ciencia y Técnica has distributed McGraw-Hill's professional and college books in Chile for eight years.

National Bank of Greece S.A.

Proposed disposal of controlling shareholding in National Housing Bank S.A.

National Bank of Greece S.A. announces its intention to seek indicative proposals from parties who may be interested in acquiring its controlling interest in National Housing Bank S.A. National Bank of Greece, which is indirectly controlled by the Greek State, currently holds 89.5 per cent of the common shares and 66.7 per cent of the preference shares of National Housing Bank.

National Housing Bank is the second biggest specialised Greek mortgage bank. As at 31st December, 1992, it had total assets of GDr. 61.0 billion (US\$283.3 million), total mortgage loans outstanding of GDr. 33.8 billion (US\$157.0 million) and shareholders' funds of GDr. 4.9 billion (US\$23.0 million). In 1992 National Housing Bank achieved profits before tax of GDr. 1.1 billion (US\$5.8 million).

National Housing Bank is quoted on the Athens Stock Exchange and has a total market capitalisation, including preference shares, of GDr. 6.7 billion (US\$28.9 million). An acquisition of National Housing Bank would make the form, inter alia, of an offer for the share capital through the Athens Stock Exchange. Parties who are not already active in the financial sector would be expected to express interest in cooperation with a suitable financial institution.

S.G. Warburg has been given the exclusive mandate to seek offers on behalf of National Bank of Greece. Enquiries should be directed to Christos Slavovoulos at Banque S.G. Warburg in Paris, telephone number (331) 4888 3344.

USD 140,000,000

CRI INSURED

MORTGAGE

ASSOCIATION INC.

Guaranteed Secured

Floating Rate Notes

due 1998

Interest Rate 3.525% p.a.

Interest Period July 12, 1993

October 12, 1993

Interest Amount due on

October 12, 1993 per

USD 66,875.00 USD 608.84

BANK OF GREECE S.A.

Agent Bank

Pioneer Electronic Corporation

Notes are hereby given to holders of CDEs issued

by Pioneer Electronic Corporation, N.Y., evidencing

shares in the above company that the "47th

annual meeting of the Pioneer

Electronic Corporation for the six months period

ended March 31, 1993, prepared on a parent-only

basis, may be obtained from:

N.V. Nederlandse Aankoopbank

Trustee

Hemweg 420

1071 EZ Amsterdam

and

The Bank of Tokyo Ltd

established in Tokyo, Brunei, London,

Osaka, Paris and New York

McGraw-Hill N.V.

Amsterdam, July 6, 1993

THORN EMI Capital N.V.

(Incorporated in the Netherlands Antilles with limited liability)

5 1/4 per cent. Guaranteed Redeemable Convertible

Preference Shares 2004 in THORN EMI Capital N.V.

Holders of the above-mentioned shares are advised that copies of

THORN EMI Capital N.V.'s Report and Accounts for the year ended

31 March 1993 and the 1993 Annual Report of THORN EMI plc

("the Guarantor") are available from THORN EMI plc's Registered

Office at 4 Tenterden Street, London W1A 2AY.

July 13, 1993, London

By: Citibank, N.A. (Issuer Services), Agent Bank

CITIBANK

HONGKONG BANK

The Hongkong and Shanghai Banking Corporation Limited

(Incorporated in Hong Kong with limited liability)

U.S.\$400,000,000

PRIMARY CAPITAL UPDATED FLOATING RATE NOTES

(THIRD SERIES)

Notice is hereby given that the Rate of Interest has been fixed at 3.4375%

and that the interest payable on the relevant Interest Payment Date

October 13, 1993 in respect of \$5,000,000 of the Notes will be

\$43.92 and in respect of \$100,000,000 of the Notes will be \$1,098.00.

July 13, 1993, London

By: Citibank, N.A. (Issuer Services), Agent Bank

CITIBANK

SAMSUNG SEMICONDUCTOR AND TELECOMMUNICATIONS LIMITED

US\$ 30,000,000 FLOATING RATE NOTES DUE 1994

GUARANTEED BY

SAMSUNG ELECTRONICS COMPANY LIMITED

For the six months from the 12 July 1993 to 12 January 1994 the Notes will carry an

interest rate of 6 1/4% per annum. The interest payable on the relevant interest payment

date, 12 January 1994, will be US\$388.33 per US\$ 100,000 Note.

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Chase Corporation Finance

New Zealand N.V.

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Bonds Due 1997 (the "Bonds")

Guaranteed on a subordinated basis

by Chase Corporation Limited ("CCL")

Bondholders are hereby notified that a third distribution made by CCL of U.S. \$7.31 per U.S. \$1,000 nominal of Bonds has been approved by the Scheme

Managers under the Scheme of Arrangement between the Company and its

Creditors. Bondholders may collect the distribution by presenting their Bonds to

the Paying Agents listed below for endorsement.

Pursuant to the terms of a Supplemental Trust Deed dated 10th May, 1991 all

rights to payment of principal of and interest on the Bonds have been exchanged

for rights to receive distributions under the Scheme of Arrangement.

The Scheme Managers have prepared further reports which are available for

collection by Bondholders from the Paying Agents and The Law Debenture Trust

Corporation p.l.c., the Trustee of the Bonds.

Principal Paying Agent:

Bankers Trust Company

1 Appold Street, Broadgate

London EC2A 2HE

England

Trustee:

The Law Debenture Trust

Corporation p.l.c.

Princes House

85 Gresham Street

London EC2V 7LY

Paying Agents:

Credit Suisse

8 Paradeplatz

CH-8021 Zurich

Switzerland

Benque Indus Luxembourg

39 Ales Scheffer

L-2520 Luxembourg

FINANCIAL TIMES

WORLD

ACCOUNTING

REPORT

INTERNATIONAL COMPANIES AND FINANCE

Anglo American confirms opposition to unbundling

By Philip Gawth in Johannesburg

ANGLO American Corporation, South Africa's largest company, has restated its opposition to the concept of unbundling as a means of reducing its size and influence in the local economy.

In his annual statement, Mr Julian Ogilvie Thompson, chairman, noted: "The corporation has no intention of mounting a major unbundling exercise. We believe the corporation's overall structure is sound and continues to serve the interests of the shareholders and the country well."

Unbundling has been much in the news in South Africa recently following the May announcement by Gencor, South Africa's second largest mining house, that it planned to break itself up into smaller units, and last month a cautionary statement from Barok Rand, the largest industrial group in the country, that it will split itself into three.

Mr Ogilvie Thompson had two main messages to deliver. First, that Anglo was a



Julian Ogilvie Thompson: overall structure sound

dynamic company which benefited the economy. The second was a strongly argued case about the appropriate aims and limits of competition policy, unbundling and black empowerment - areas set for greater prominence under any new black dominated government.

Anglo, and much of corporate South Africa, fears that the heavy-handed or confused application of these policies

could cause considerable economic damage.

Mr Ogilvie Thompson argued that the most important aspect of competition policy was to reintegrate the country into the global economy.

He conceded that Anglo and its associates controlled about 25 per cent of the capitalisation of the Johannesburg stock market but he disputed that this conferred excessive power which could be used to thwart the state.

He noted that Anglo accounted for about 6 per cent of the country's fixed capital stock. He argued that far from being an "acquisitive, short-term orientated US-style conglomerate, Anglo had been characterised by organic growth, which accounted for as much as 80 per cent of the capitalisation it controlled.

Mr Ogilvie Thompson said South Africa would have to find the right balance between policies which sought to promote competition, and those which sought to promote industrial capability, which probably involved favouring large companies.

Woolworths relisting lifts market in Australia

By Bruce Jacques in Sydney

SHARES in Woolworths, the Australian retailer, relisted publicly yesterday at a hefty premium, pushing the Australian stock market to its highest level since 1987 and paving the way for a deluge of new company floatations.

Woolworths shares, issued at A\$2.45, closed at A\$2.98 following a three-hour extension of normal trading by the Australian Stock Exchange.

The strong Woolworths trade, involving almost 92m shares worth A\$280.6m (US\$174.8), pushed total market turnover to A\$613m.

The float, Australia's biggest ever, consisted of 1bn shares at A\$2.45 each.

The vendors, Industrial Equity, received applications for 2.66m shares worth A\$6.52bn and were forced to scale back allocations to both institutional and public applicants.

Analysts said last night the lively showing meant that demand was likely to spill over into other proposed Australian share issues, especially the A\$90m raising by AAPC, incorporating the Australian assets of the Accor Asia Pacific hotel group, and an A\$12m offering of gold interests held by Ashton Mining, the Australian diamond producer.

The Australian government had also announced plans to float a further 19 per cent of the Commonwealth Bank of Australia around September this year while Burns Philp, the Australian industrial group, is also believed to be considering an A\$400m float of its hardware division.

A maverick takes to the golf course

EIE International's president finds time to relax, says Robert Thomson

When Mr Harunori Takahashi, president of EIE International, the Japanese property developer, heard that five leading banks were planning to halt their lending to his debt-ridden company, he took the news calmly. "I'm off to play golf," he is reported as saying.

At least Mr Takahashi has a fine range of EIE International-owned golf courses on which to practise while the payments mount on his company's debts, conservatively estimated at Y700bn (\$6.38bn). But there could be cause for nervousness. The tough line being taken by the banks may yet mark a turning point in the treatment of ailing companies in post-bubble era Japan.

The action was initiated by the Long-Term Credit Bank of Japan, EIE International's main bank, which has about Y190bn in loans to the company, about half of which LTCB has categorised as bad.

LTCB wants to distance itself from Mr Takahashi and his approach to the property empire's troubles. Mr Takahashi was still confident last night that he would find other banks to fund his company, but with LTCB and other past friends, including Mitsui Trust and Banking, and Mitsubishi Trust and Banking, not willing to lend directly, it will be difficult for him to raise new funds in Japan.

At EIE's peak, Mr Takahashi had a glittering array of trophy properties. He owns a fleet of luxury hotels including the Beverly Wilshire in Beverly Hills, and a floating hotel in

Vietnam. He also established a private university in Queensland in tandem with Mr Alan Bond, the failed Australian entrepreneur.

The conflict between the aggressive EIE International and its banks is being played out against a background of a rising pile of non-performing property loans. Japanese banks were able to exploit interest rate falls last year to boost profits and write off a small portion of their exposure, but they face increasing difficulties this year.

Officially, the country's 11 leading commercial banks have Y8,400bn in non-performing loans, but that figure is unofficially estimated to be about half the actual total. The banks generally do not include "restructurings", such as the EIE case, where interest rates are shaved to almost zero, or the problem loans of finance company affiliates.

Japanese banks, unlike their US counterparts, are generally determined to deal with their problem loans over the longer term, avoiding the embarrassment of short-term losses. This strategy, mildly criticised by the Bank of Japan, restricts the banks' lending ability and encourages them to pass on the charges to more solidly based clients.

But, in the case of EIE International, the banks have decided that enough is enough, although LTCB still plans to support some individual projects, including Bond University and the vast Sanctuary



Harunori Takahashi: difficult to raise new funds in Japan

Cove resort in Queensland. A statement from the bank issued in Australia said that it "wishes both projects to carry on without interruption".

The bank has also indicated that it will not necessarily abandon the debt-burdened shipping and resort affiliate, Sea-Com, listed on the second section of the Tokyo exchange, in which EIE International has a 45.7 per cent stake, or the affiliated over-the-counter electronics company, Electronic and Industrial Enterprises. Trading in both stocks was suspended yesterday.

The timing of the banks' retreat is linked to unsuccessful attempts to renegotiate a restructuring package negotiated two years ago, when the EIE group's debts were estimated at Y1,000bn. LTCB says that it was interested in putting together a new package, but could not reach agreement

with Mr Takahashi and had to stop fresh lending.

Apart from cutting interest rates and pumping in enough funds to keep the company afloat, LTCB had provided EIE with five senior managers who were supposed to work in tandem with Mr Takahashi. The five were given new assignments at LTCB yesterday.

"We could not agree with EIE on the restructuring and have decided to end our support. We just could not go on providing funds the way things were going," LTCB said. "We are taking this action because we want to show that we are financially sound."

However, an EIE manager said the bank wants to distance itself from the company, but would be unable to abandon it entirely. He said LTCB had become annoyed because creditors were going to the bank before they called on the developer to collect their debts.

"I think we will be okay. Mr Takahashi is still confident. Today he gave us a rundown of the long-term business plans for the companies, so I don't think he is very worried. We are relaxed," the EIE manager said.

It is unclear whether LTCB and the other banks will be as prepared to pull the plug on more mainstream clients who have heavy exposure to the stock and property markets. The decision is easier in the case of EIE since it is not linked to the large Japanese corporate families, and because Mr Takahashi himself is seen as something of a corporate maverick.

Price rise boosts Gold Fields

By Philip Gawth

AN increase of 9 per cent in the average gold price offset lower production and allowed the four gold mines in the Gold Fields group to improve after-tax profits by 15 per cent to R306.6m (\$22.3m) in the three months ended June compared with the March quarter.

Gold Fields does not sell production forward so its results are closely geared to movements in the gold price. The average price per kg received

during the quarter was R26,672 compared with R23,716 in March.

This was offset, however, by the 6 per cent fall in gold produced to 26,765kg following a fire at West Driefontein and a fall in the grade at the Kloof division of the Kloof mine.

The net effect of these conflicting trends was that working profit rose marginally to R37.8m from R330.8m. A large jump in net sundry revenue - mainly payouts from insurance claims related to fires - to

R41.2m from R13.9m helped bolster after-tax profit.

Commenting on the individual mines, Mr Michael Fuller-Good, general manager, said Driefontein should be able to improve on its profits as the west part of the mine had recovered from its fire. He said the Kloof division was performing well, despite the recent fall in grade. He thought the Libanon division, which made a working loss in the June quarter, was probably back in profit at current gold prices.

Moody's downgrades Japanese building group

By Eniko Terazono in Tokyo

MOODY'S, the US credit ratings agency, has downgraded the long-term debt rating of Hazama, the Japanese construction company.

Hazama faces government penalties due to the involvement of executives in an alleged bribery scandal. Moody's said the company's operating performance and financial flexibility will be damaged by penalties, effectively contract bidding suspensions, and downgraded its long term debt to B2 from B1.

The Ministry of Construction, the Ministry of Transportation and local governments have suspended Hazama from bidding for new public projects in the near term, after three executives were arrested.

Moody's said the penalty could affect Hazama's profits for the next few years due to the company's dependence on public works projects. Some 30 per cent of Hazama's non-consolidated revenue for the year ended March 1993 was generated by public sector work.

The agency said the case would affect the company's relations with banks and investors, and its private sector business.

Hazama already faces asset problems due to aggressive business expansion in the late 1980s, and Moody's said the company was not prepared to face a further fall in revenue.

Alcoa earnings surge to A\$199m in opening half

By Bruce Jacques

ALCOA of Australia, the Australian integrated aluminium producer, has overcome flat demand and recorded a robust earnings performance in the half year ended June.

Net earnings rose 45 per cent to A\$198.8m (US\$133.4m) in the six months on a 2 per cent improvement in revenue to A\$1.09bn.

The result excluded an abnormal gain of A\$59.7m (against nothing previously) reflecting a tax adjustment while capital expenditure was down to A\$85.2m from A\$120.4m.

The company lifted its dividend payout to A\$180m from

A\$120m, most of it going to the two largest shareholders, Aluminium Company of America and Western Mining Corporation.

Alcoa said the aluminium division had made a negligible contribution to earnings, and operations remained under review following American Alcoa's recent 25 per cent cut in primary metal output.

Tax took A\$100.8m and depreciation A\$73.4m. Interest expense totalled A\$13.0m.

High aluminium stocks and low prices have hit the aluminium business worldwide. A large part of the industry's difficulties stem from an upsurge in imports to the west from the former Soviet Union.

INDEX CONSTITUENTS

LISTS OF the constituent stocks of the FT-SE Actuaries Share Indices series and other FT indices are available at no charge from The Manager, FT Statistics, One Southwark Bridge, London SE1 9HL.

Information regarding the FT-Actuaries World Indices, including details of constituents, is available from:

Mark Zurack or Barbara Mueller
Goldman, Sachs & Co.
85 Wall Street,
New York,
New York 10004,
U.S.A.
(212-902-6777).

Symon Bradford,
NatWest Securities
Ltd.,
Kintore House,
74-77 Queen Street,
Edinburgh EH2 4NS
(031-225-8525)

EARNINGS IN THE FT

Readers of the FT's London Share Service pages will have started to notice a capital N against the names of some companies.

The N symbol means that the version of the company's earnings used in the FT's statistical calculations now follows the "headline earnings" formula devised by a subcommittee of the Institute for Investment Management and Research (IIMR) and proposed in draft form (still subject to final review) in early March.

This formula represents a broad consensus on the "single number" that should be used for UK companies' earnings under the Accounting Standards Board's Financial Reporting Standard 3.

The IIMR headline earnings formula emphasises a company's actual activities during the reporting period, including those activities which have been with the company only for part of the period. Key features are:

- All trading profits/losses are included in the earnings number. Items which are abnormal in size or nature are included but should be flagged.
- Profits and losses on the sale of fixed assets or of businesses should be excluded. This does not apply to assets acquired for resale, such as marketable securities.
- Profits and losses arising in activities discontinued at some point in the period, or in activities acquired at some point in the period, should remain in the earnings figure. Costs of eliminating a discontinued operation, or of making an acquisition, are excluded.

Further information on the FT's treatment of earnings is available from The Manager, FT Statistics, One Southwark Bridge, London SE1 9HL.

TO THE HOLDERS OF WARRANTS to subscribe for shares of common stock of KEIYO CO., LTD. (the "Company")

Issued in conjunction with the issue by the Company of U.S. \$100,000,000 4 per cent. Guaranteed Notes 1995

NOTICE OF ADJUSTMENTS TO SUBSCRIPTION PRICE

Pursuant to Classes 3 and 4 of the Instrument dated 18th July, 1991 under which the above described Warrants were issued, notice is hereby given that as a result of the issues of \$10,000,000,000 convertible bonds due 2000 and DM 100,000,000 guaranteed bonds 1993/1997 with warrants of the Company both on 8th July, 1993 with the initial conversion price and subscription price per share of both \$2.237, being less than the applicable current market price per share of \$2.237, the Subscription Price of the above described Warrants have been adjusted, in accordance with Clause 3 of the Instrument with effect from 9th July, 1993 (Japan time), as follows:

Subscription Price before adjustment: \$2.689.40
Subscription Price after adjustment: \$2.687.90

KEIYO CO., LTD.
By The Keiyo Bank, Limited
as Principal Paying Agent
13th July, 1993

Notice of Meeting The European Warrant Fund

45, rue des Scilles, L-2529 Howald Grand Duchy of Luxembourg
Luxembourg Register de Commerce No. B 32792
NOTICE is hereby given that the Annual General Meeting of the Fund will be held at the Registered Office, 45, rue des Scilles, L-2529 Howald, Grand Duchy of Luxembourg on Friday, 30 July 1993 at 16.00 hours.

Agenda

1. Submission of the reports of the Board of Directors and of the Auditors;
2. Approval of the financial statements for the year ended 31 March 1993;
3. Discharge of the Directors and the Auditors in respect of their duties carried out for the year ended 31 March 1993;
4. Election of Directors and the Auditors for a term of one year;
5. Declaration of dividends as may properly come before the Meeting;
6. Miscellaneous business as may properly come before the Meeting.

Resolutions on the agenda of the Annual General Meeting will require no quorum and will be taken at the majority of the shareholders present or represented.

A shareholder, entitled to attend and vote at the meeting may appoint a proxy to attend and vote on his behalf and such proxy need not be a shareholder of the Fund.

By Order of the Board of Directors

All of these securities having been sold, this announcement appears as a matter of record only.

July, 1993

8,800,000 Shares

**CARR
GOTTSTEIN**
FOODS CO.

Common Stock

1,760,000 Shares

The above shares were offered outside the United States and Canada by the undersigned.

Donaldson, Lufkin & Jenrette
Securities Corporation

Salomon Brothers International Limited

Piper Jaffray International Inc.

Bayerische Landesbank Girozentrale

Cazenove & Co.

Daiwa Europe Limited

Kleinwort Benson Limited

NatWest Securities Limited

Paribas Capital Markets

N M Rothschild & Sons Limited

Société Générale

Smith New Court Securities Limited

S.G. Warburg Securities

Swiss Bank Corporation

7,040,000 Shares

The above shares were offered in the United States and Canada by the undersigned.

Donaldson, Lufkin & Jenrette
Securities Corporation

Salomon Brothers Inc

Piper Jaffray Inc.

Bear, Stearns & Co. Inc.

The First Boston Corporation

Alex. Brown & Sons
Incorporated

BT Securities Corporation

Dillon, Read & Co. Inc.

A.G. Edwards & Sons, Inc.

Goldman, Sachs & Co.

Hambrecht & Quist
Incorporated

Kidder, Peabody & Co.
Incorporated

Kleinwort Benson North America Inc.

Lazard Frères & Co.

Lehman Brothers

Merrill Lynch & Co.

Montgomery Securities

J.P. Morgan Securities Inc.

Morgan Stanley & Co.
Incorporated

Oppenheimer & Co., Inc.

PaineWebber Incorporated

Prudential Securities Incorporated

Robertson, Stephens & Company

Smith Barney, Harris Upham & Co.
Incorporated

UBS Securities Inc.

Wasserstein Perella Securities, Inc.

Wertheim Schroder & Co.
Incorporated

Dean Witter Reynolds Inc.

Advest, Inc.

Arnhold and S. Bleichroeder, Inc.

Robert W. Baird & Co.
Incorporated

William Blair & Company

J. C. Bradford & Co.

Cowen & Company

Crowell, Weedon & Co.

Dain Bosworth
Incorporated

Furman Selz
Incorporated

Gruntal & Co., Incorporated

Interstate/Johnson Lane
Corporation

Janney Montgomery Scott Inc.

Kemper Securities, Inc.

Ladenburg, Thalmann & Co. Inc.

C.J. Lawrence Inc.

Legg Mason Wood Walker
Incorporated

McDonald & Company
Securities, Inc.

Neuberger & Berman

Ragen Mackenzie
Incorporated

Raymond James & Associates, Inc.

The Seidler Companies
Incorporated

Stephens Inc.

Sutro & Co. Incorporated

Wheat First Butcher & Singer
Capital Markets

L.H. Alton & Company

Black & Company, Inc.

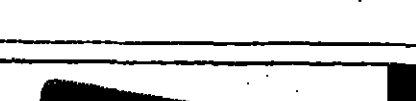
Brean Murray, Foster Securities Inc.

Parker/Hunter
Incorporated

Pennsylvania Merchant Group Ltd

Van Kasper & Company

French debt prices hold the line amid currency battle

A black credit card with white and gold text. It features the JAL logo and the text "JAL MILEAGE BANK europe". The card number "0000 0000 0000 0000" and the name "JAL MILEAGE BANK" are visible. There are also small airplane icons and a gold chip.

Book JAL Economy and you're in Business.

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MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Used are the latest international bonds for which there is an adequate secondary market.

ISMA STRATEGIES	Amount	Yield	Duration	Other	Price	Yield	Duration	Other
AAA 5% 94	200	105	105	4.10	100	105	105	4.10
AAA 5% 95	200	105	105	4.10	100	105	105	4.10
AAA 5% 96	200	105	105	4.10	100	105	105	4.10
AAA 5% 97	200	105	105	4.10	100	105	105	4.10
AAA 5% 98	200	105	105	4.10	100	105	105	4.10
AAA 5% 99	200	105	105	4.10	100	105	105	4.10
AAA 5% 00	200	105	105	4.10	100	105	105	4.10
AAA 5% 01	200	105	105	4.10	100	105	105	4.10
AAA 5% 02	200	105	105	4.10	100	105	105	4.10
AAA 5% 03	200	105	105	4.10	100	105	105	4.10
AAA 5% 04	200	105	105	4.10	100	105	105	4.10
AAA 5% 05	200	105	105	4.10	100	105	105	4.10
AAA 5% 06	200	105	105	4.10	100	105	105	4.10
AAA 5% 07	200	105	105	4.10	100	105	105	4.10
AAA 5% 08	200	105	105	4.10	100	105	105	4.10
AAA 5% 09	200	105	105	4.10	100	105	105	4.10
AAA 5% 10	200	105	105	4.10	100	105	105	4.10
AAA 5% 11	200	105	105	4.10	100	105	105	4.10
AAA 5% 12	200	105	105	4.10	100	105	105	4.10
AAA 5% 13	200	105	105	4.10	100	105	105	4.10
AAA 5% 14	200	105	105	4.10	100	105	105	4.10
AAA 5% 15	200	105	105	4.10	100	105	105	4.10
AAA 5% 16	200	105	105	4.10	100	105	105	4.10
AAA 5% 17	200	105	105	4.10	100	105	105	4.10
AAA 5% 18	200	105	105	4.10	100	105	105	4.10
AAA 5% 19	200	105	105	4.10	100	105	105	4.10
AAA 5% 20	200	105	105	4.10	100	105	105	4.10

RISES AND FALLS YESTERDAY

British Funds	Rises	Falls	Same
Other Fixed Interest	60	5	13
Commercial, Industrial	215	318	877
Financial & Property	110	150	528
Oil & Gas	21	13	49
Infrastructure	49	17	7
Others	63	35	45
Totals	621	544	1,801

LONDON RECENT ISSUES

Issue	Amount	Yield	Duration	Other	Price	Yield	Duration	Other
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12

LIFFE EQUITY OPTIONS

Option	CALLS	PUTS	Option	CALLS	PUTS
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100

RIGHTS OFFERS

Issue	Amount	Yield	Duration	Other	Price	Yield	Duration	Other
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12
12/12/93	12	12	12	12	12	12	12	12

TRADITIONAL OPTIONS

First Dealings	July 12	Call: Avesco, Cluff Res., Gray
Last Dealings	July 12	Elect. Essex Furn., Hanson Wts.
Last Dealings	July 12	Hay (N.), Microfocus, Owners
For settlement	Oct. 25	Abroad and Seaford, Put: Microfocus, Put & Call: Alphabetic.

FT-SE ACTUARIES INDICES

Index	Value	Change	Index	Value	Change
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100

FT-ACTUARIES FIXED INTEREST INDICES

Index	Value	Change	Index	Value	Change
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100
100	100	100	100	100	100

Strength in German M&A worldwide

EATON CORPORATION has acquired FRANZ KIRSTEN ELEKTRO-TECHNISCHE SPEZIALFABRIK We advised Eaton Corporation in this transaction. Morgan Grenfell GmbH February 1992	KVH VERBAUTECHNIK GMBH (Kings) has been sold to CWB CAPITAL PARTNERS We advised the vendors in this transaction. Morgan Grenfell GmbH March 1992	SOGEFI SPA has sold 49% of BOGE AG to MANNESSMANN AG We advised Sogefi SPA in this transaction. Morgan Grenfell GmbH March 1992	SAPPI LIMITED has acquired HANNOVER PAPIER AG We advised Sappi Limited in this transaction and on the subsequent transfer of the public shareholders. Morgan Grenfell & Co. Limited Morgan Grenfell GmbH May 1992	BORAL LIMITED has acquired POTSDAMER KIES SAND UND RECYCLING GMBH from THE TREUHANDANSTALT We advised Boral Limited in this transaction. Morgan Grenfell GmbH September 1992
Deutsche Gesellschaft für Ökonomieentwicklung a subsidiary of DEUTSCHE SHELL AG HELIOS ENERGIEANLAGEN GMBH COMPAGNIE GÉNÉRALE DE CHAUFFE (DEUTSCHLAND) GMBH We advised Deutsche Shell AG in this transaction. Morgan Grenfell GmbH October 1992	MANVILLE CORP. through its subsidiary GLASWERK SCHÜLLER GMBH has acquired Plant Schürbach of GLASWERK THÜRINGEN AG from THE TREUHANDANSTALT We advised Glaswerk Schüller GmbH in this transaction. Morgan Grenfell GmbH November 1992	MARKT & TECHNIK VERLAG AG has sold M&T PUBLISHING INC. through its subsidiary UNITED NEWSPAPERS PLC to MILLER FREEMAN INC. We advised Markt & Technik Verlag AG in this transaction. Morgan Grenfell GmbH December 1992	MARKT & TECHNIK VERLAG AG has sold its computer hardware and software distribution subsidiaries to COMPUTER 2000 AG We advised Markt & Technik Verlag AG in this transaction. Morgan Grenfell GmbH December 1992	AMB AACHENER UND MÜNCHENER BETRIEBSGESELLSCHAFT has sold the majority interest in BIG-BANK AG to CREDIT LYONNAIS S.A. We advised the vendors in this transaction. Morgan Grenfell & Co. Limited Morgan Grenfell GmbH November 1992
LAERSTATE B.V. has acquired 18.8% of LONRHO PLC We advised Laerstate B.V. in this transaction. Morgan Grenfell & Co. Limited January 1993	CONTINENTAL AG We advised CONTINENTAL AG on the proposal from PIRELLI SPA. Morgan Grenfell & Co. Limited Morgan Grenfell GmbH April 1993	MANNESSMANN DEMAG AG has acquired the Plastic Machinery Division of VAN DORN COMPANY together with Crown Cork & Seal Inc. We advised Manneßmann Demag AG in this transaction. Glarner & Co. Morgan Grenfell GmbH April 1993	THYSEN AUFGÜBE GMBH through its subsidiary THYSEN ASCENSEUR HOLDING has acquired 80% of COMPAGNIE GÉNÉRALE D'APPLICATION ET D'ASCENSEUR S.A. We advised Thyssen Aufzüge GmbH in this transaction. Morgan Grenfell S.A. Morgan Grenfell GmbH April 1993	DEUTSCHE AEROSPACE AG (DASA) has acquired 51% of N.V. KONINKLIJKE NEDERLANDSE Vliegtuigenfabriek FOKKER We advised Deutsche Aerospace AG in this transaction. Morgan Grenfell & Co. Limited Morgan Grenfell GmbH May 1993

Morgan Grenfell GmbH is the German subsidiary of Morgan Grenfell.

Morgan Grenfell's strong connections and international capability make it the most active adviser on German Mergers and Acquisitions.

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COMPANY NEWS: UK

Menzies 'a step more than satisfactory' with £30m

By Peter Pearce

RESULTS of John Menzies for the year to May 1 were "just that step more than satisfactory", Mr Ronald Noel-Paton, group managing director of the retail and wholesale group, said yesterday.

Pre-tax profits under FRS 3 jumped 85 per cent from £30.7m to £16.6m, reflecting heavy restructuring costs a year earlier. Mr Noel-Paton said pre-tax profits from continuing operations under previous accounting standards grew at a more modest 17 per cent to £30.1m (£25.7m). Turnover was £1.17bn (£1.1bn).

Distribution services drove the profits advance with a rise from £18.5m to £20.8m at the operating level on turnover ahead at £788.1m (£705.5m). Mr Noel-Paton expected the MMC investigation into news wholesaling to be published about September.

Sales volumes and profits fell at TBS largely because of poor demand for music. Total Book Distribution, now folded into TBS, saw book sales rise 10 per

cent. On a like-for-like basis Universal Office Supplies lifted sales 12 per cent, though including the acquired RMG they rose 22-23 per cent.

Operating profits on the retailing side slid to £11.1m (£11.3m) on increased turnover of £375.7m (£356.2m). Here progress at Early Learning Centre, where sales were up 12 per cent and profits "almost in proportion to sales", was offset by a "slight" profits fall and 3.5 per cent sales growth at John Menzies Retail.

Mr Noel-Paton said the 158 non-confectionery/tobacco/newsprint and non-station bookstall outlets in the 274-strong chain were to be revamped away from a generalist to a multi-specialist approach.

Cash flow was a bright point, enabling borrowings to be reduced by £16m to about £3m, said Mr Noel-Paton. Consequently interest charges tumbled to £1.5m (£4.1m).

FRS 3 earnings leaped to 35.3p (15.5p) and continuing earnings to 34.6p (23.4p) per share. The annual dividend is

lifted to 10.8p (10p) with a 7p final.

COMMENT

Thought of as solid, rather than adventurous, Menzies' management has at last grasped the nettle at JM Retail, installing a new managing director with a brief to give it an identity on the high street. To help with this, capital expenditure is expected to rise from £15.5m this time to £20m. However, the chain operates in a dull market - especially newspapers and music - and the scope for improvement may be narrow. The wholesale side remains impressive, illustrated by the - admittedly acquisition-driven - 20 per cent sales growth at UOS in a tricky market. The unknown quantity is the outcome and fall-out of the MMC report, though it's likely to be neutral or worse. Assuming about £22m pre-tax penalties for the current year, the group is on a prospective p/e of 13.9. The shares are near the sector rating and perhaps have run ahead of themselves.

Richard Pearce & Sons, a Hong Kong-based company with an Irish address, is Mr Smith's largest creditor, with claims of £12.3m. Mr Kevin Myles, who shares the same Irish address and has managed many of Mr Smith's offshore interests, has refused to identify Richard Pearce's owners to other creditors.

At the creditors meeting last month Mr Smith denied he had any connection to Richard Pearce. The proxy vote in favour of the IVA was cast by Mr Graham Wilson, Mr Smith's insolvency practitioner. Mr Wilson, who was arrested last year on suspicion of defrauding creditors in an insolvency procedure, is currently on police bail awaiting possible charges.

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Smith's creditors mount challenge

By Peggy Hollinger

CREDITORS of Mr Clive Smith, the Midlands entrepreneur who recently avoided bankruptcy after incurring debts of more than £20m, are mounting a challenge to the individual voluntary arrangement which allows him to repay just 8.13p in the pound.

Their appeal will be based on a clause in the insolvency act which allows court intervention if material irregularities at or in relation to a creditors meeting could be proved. The hearing is set for August.

The challenge follows the creditors' meeting last month at which a majority of the debt was voted in favour of Mr Smith's proposals. However, dissenting creditors are thought to be raising questions over the validity of debt claims from an offshore company linked to an associate of Mr Smith.

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Virgin claims BA incentives unfair

By Daniel Green

MR RICHARD Branson, chairman of Virgin Atlantic Airways, yesterday accused British Airways of more dirty tricks, including offering unfair incentives to travel agents to push BA at the expense of other carriers.

Mr Branson has complained to the European Commission, alleging that BA offers large corporations and travel agents financial incentives which contravene EC competition laws.

"Some travel agency staff are sometimes encouraged to offer products which are neither the best quality nor value for their

customer... to reach [a] target," Mr Branson said. Upon achieving that target the agent would be paid a "kick back".

BA said it would not be appropriate to comment. It was "not aware of the details of the allegations, nor have we been contacted by the EC". The complaint to the EC follows a series of actions by Virgin.

Dirty tricks cloud the horizon

Daniel Green on the issues raising a storm at British Airways' AGM

LORD KING of Warminster will have a front row seat today to see Sir Colin Marshall, his successor as chairman of British Airways, defend the airline publicly against allegations of "dirty tricks" on Virgin Atlantic Airways.

In his first British Airways annual meeting as merely a VIP he will expect a spirited performance from his protégé. He should not be disappointed. Sir Colin will make his account of the Virgin affair a central plank of his speech to the 1,000-plus shareholders crammed into London's Barbican Centre.

But Sir Colin's task will not be made easier by some carefully planned questions from the floor. The company has received questions from more than 2,000 shareholders, one third of which relate to the Virgin affair.

Although BA has already apologised to Virgin for the campaign, which involved the misuse of computer information on Virgin's passengers - and paid £800,000 to the airline - it faces further legal action in the UK and Brussels.

BA's board has denied involvement in this misuse of passenger information, which was said to have been carried out by junior staff.

However its position may be attacked by questions from Mr Brian Basham, who was sacked at the start of the year as public relations adviser to British Airways for his part in the dirty tricks campaign.

Mr Basham has submitted four questions to be answered at the annual meeting. In a letter to Sir Colin detailing the questions, he says: "It remains entirely implausible to

me... that you could not have known" of the misuse of computer data.

Mr Basham has sent copies of this letter to institutional investors in the airline and outlined further charges against Sir Colin.

Such accusations are likely to distract from what should have been a triumphant debut for the new chairman.

While almost every airline in the world has struggled against recession and overcapacity, the past year has seen BA consolidate its position as the western world's most profitable airline. Sir Colin has taken advantage of this financial strength to push ahead with a plan to create the world's first global airline.

Since the last annual meeting, BA has taken a £198m stake in USAir, and paid £304m for 25 per cent of Qantas, the Australian carrier. It has bought into TAT, the French regional carrier, into Delta, a German airline, and taken over the loss-making operations of Dan-Air, the UK carrier based at London's Gatwick airport.

To pay for it all, BA successfully raised £442m from its shareholders in a rights issue.

On the industrial relations front, the company has overcome strikes by some of its staff with apparently little lasting damage.

Sir Colin has also begun to shape his own personality on the business shaped by Lord King, who took it from a mediocre state-owned enterprise into one admired by the world's airline entrepreneurs.

Since Lord King left the board in March, allowing Sir Colin to move up from chief executive, two new independent non-executive directors



Sir Colin Marshall: spirited performance expected

have been appointed. They are Baroness O'Cathain, the managing director of the Barbican Centre, and Mr Charles Mackay, chief executive of Inchcape.

With these changes, the British Airways that Lord King constructed during his 11 years in power is beginning to change.

But one feature of the com-

pany that may not be so easy to alter is the liveliness, even rowdiness, of the airline's annual meetings.

Lord King thrived in those meetings, becoming known for his brusque and often witty control of questioners.

The quieter Sir Colin may have cause today to search for a similar fund of stage skills.

Ellis & Everard declines 3% and warns of price pressure

By Roland Rudd

ELLIS & Everard, the chemicals distributor, yesterday warned of continuing pressure on prices as it announced a 3 per cent fall in pre-tax profits for the year to April 30.

Mr Peter Wood, chief executive, said: "There is a lot of pressure on pricing which is in the hands of the manufacturers."

Profits fell from £12.6m - before exceptional losses of £9.6m - to £12.2m after reduction and rationalisation costs of £1.4m (£1m). Group sales rose to £394.6m (£380.4m).

The departure of the former chairman Mr Michael Marshall accounted for £350,000 of the costs; the rest was divided between redundancy payments - 300 jobs were shed - and rationalisation expenses. Turnover in the UK

increased to £145.2m (£133.1m) and operating profit was up 1 per cent to £9.6m.

In the US, sales rose from \$389.7m to \$352.4m (£235m) and operating profit increased by 13 per cent to \$9.9m as the number of operating sites was cut by 7 to 30.

European sales fell to £33.3m (£40.3m) showing breakeven at the operating level. The pool division, which makes and supplies accessories and chemicals for swimming pools, was still in loss. The Spanish operation also recorded a loss and was merged with Cat, a Spanish distributor.

Borrowing remained static at £9.1m, representing 13 per cent of shareholders' funds. Earnings per share fell to 10.3p (11.5p) adjusted for the exceptional items. The final dividend is maintained at 4.8p, making an unchanged 7.06p.

COMMENT

The price recovery longed for by Ellis & Everard is unlikely to materialise in the short term. US chemical prices, which fell by a further 5 per cent over the last year, show no signs of improvement. As a distributor the company can only look on as the manufacturers battle it out. At least volume gains suggest that customers and suppliers are making increasing use of distributors. By facing up to a number of problems nearer to home, such as the loss-making pool side and the Spanish operation, it will be in a stronger position to produce better figures next year. Analysts expect full year pre-tax profits of £14.5m, which put the shares - down 2p to 20.9p - on a prospective multiple of 17.4. That still looks too demanding against the market sector average of 14.5.

At the creditors meeting last month Mr Smith denied he had any connection to Richard Pearce. The proxy vote in favour of the IVA was cast by Mr Graham Wilson, Mr Smith's insolvency practitioner. Mr Wilson, who was arrested last year on suspicion of defrauding creditors in an insolvency procedure, is currently on police bail awaiting possible charges.

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Spring Ram chief awaits fate

By Andrew Bolger

The fate of Mr Bill Rooney, chairman and chief executive of Spring Ram, is likely to be decided at a board meeting of the bathroom and kitchens group tomorrow.

Prudential Corporation, the group's biggest institutional shareholder, wants to see the departure of Mr Rooney, who yesterday returned early from a holiday in Barbados to fight for his future in the company, which he co-founded.

Sources close to the company suggested that the other executive directors would not wish to work with an imposed chairman, but the Prudential seems confident that its views will prevail.

Spring Ram's shares yesterday closed 54p higher at 54p, well below last year's peak of 181p.

The shares have collapsed because of three profits warnings in eight months, the most recent a fortnight ago.

Dunedin launches Japan trust

By Scheherazade Daneshkhu

Dunedin Fund Managers yesterday launched, via a placing and offer for subscription, a new closed-end Japanese investment trust which hopes to raise up to £40m.

Dunedin Japan Investment Trust, which will invest for long term capital growth in Japanese companies, is issuing up to 8m units. Each comprises 5 shares with one warrant attached at 500p per unit. Each warrant will carry the right to

subscribe for one share in any September from 1995 to 1999 at 100p per share.

The sponsors, UBS, has arranged a placing of 2.36m units; the remaining units are available for public subscription. It had succeeded in placing £14.3m with institutions.

For the first five years of the trust's life, Dunedin will donate 35 per cent of its 1 per cent annual management fee to Barnardos, the charity. Minimum subscription for the offer which closes on July 23 is £250.

Sema sells stake in subsidiary

SEMA GROUP, the Anglo-French computing services company which is quoted in London, has sold a 24.5 per cent interest in Sema Group Facilities Management, its UK-based outsourcing arm, to FT LIS - a wholly owned subsidiary of France Telecom - for £3.7m.

The sale is being arranged through the creation of a UK joint venture company in

which Sema and FT LIS will have equal shares and which will own 49 per cent of SGFM.

Sema, which has built up a strong position in the fast expanding UK market for facilities management, will retain ownership of 75.5 per cent of the subsidiary.

The facilities management operations made pre-tax profits of £3.7m in the year to end-De-

cember and had net assets of £2.61m.

The move was welcomed in the market yesterday where Sema's share price gained 10p to close at 371p. Sema said it will use the proceeds of the sale for further development of its activities.

The UK joint venture represents the latest in a growing number of links between Sema, which wants to expand its communications related operations, and the French telecommunications group, which is eager to develop its international business.

In October FT LIS acquired an indirect stake in Sema after it established a joint venture company with Paribas to hold the French bank's 39 per cent shareholding in Sema. France Telecom owns a 49.9 per cent stake in the holding company.

Following that agreement Mr Charles Rozmarny, head of France Telecom, and Mr Michel Huet, head of FT LIS, joined the Sema board.

Disposal gives boost to Daejan

Boostered by a £2.53m surplus on the disposal of a subsidiary, pre-tax profits of Daejan Holdings, the property group, rose by £2.2m to £16.7m in the year to end-March.

Gross income for the year increased from £23.1m to £23m, and at the operating level profits from continuing operations improved to £18.5m against £18.3m.

The accounts have been prepared on an FRS 3 basis.

The interest charge rose to £5.06m (£4.35m) and tax took £3.5m (£3.32m).

The company said that the UK investment portfolio

COMPANY NEWS: UK AND IRELAND

Low & Bonar advances 21%

By Paul Taylor

LOW & Bonar, the international packaging and materials group, yesterday reported a 21 per cent increase in interim profits, reflecting improved operating margins following a restructuring programme.

The Dundee-based group, which has also made two significant acquisitions in the UK carton sector in recent months funded by a £50.2m rights issue in April, reported pre-tax profits of £14.3m for the six months to May 31, up from £11.8m a year earlier.

Turnover improved 13 per cent to £171.1m (£151m), boosted by the acquisitions, which added £4.87m, and by currency translation movements. Sales volumes were flat. An interim dividend of 2.9p

(2.7p) is payable from earnings per share ahead 14 per cent to 10.22p (8.94p restated).

Mr Jim Leng, who took over as chief executive last year, said the improvement in earnings had been delivered "in tough market conditions, particularly on the Continent."

Group operating profits increased by 28 per cent to £16.5m (£12.8m), including £87,000 attributed to acquisitions. Currency movements accounted for a further £1m of the gain, although strong currencies adversely affected a number of the group's Continental businesses. Overall margins increased from 8.6 per cent to 9.9 per cent.

European profits rose by 20 per cent to £13.2m (£10.9m) with Bonar Cereal Packaging, acquired from Kellogg in April,

making "an encouraging" first contribution. The UK now accounts for nearly two thirds of European profits.

European margins improved from 10.6 per cent to 11.2 per cent helped by a continuing cost reduction programme. North American profits rose by 88 per cent from £2.2m to £3.7m following a restructuring programme begun in the second half of last year which helped lift margins from 4.4 per cent to 7 per cent.

The higher operating profits were partly offset by increased interest charges of £2.02m (£1.24m) reflecting acquisition payments made in May last year. Following the rights issue at the end of April net borrowings fell to £18m (£37m), equivalent to gearing of 11.2 per cent.

COMMENT

The new management team is beginning to deliver the margin and profit improvements that Low & Bonar needed. Costs, including the headcount, are being cut and the North American operations have been turned around. The acquisition last month of CMB Carton Systems for £17.35m has introduced leading packaging systems technology into the carton division which is now underpinned by a five-year supply contract with Kellogg. Analysts were raising their profit forecasts yesterday and profits before tax could reach £31m this year, producing earnings of 20.8p per share and a prospective multiple of 16.5.

The share price has been rising, but could still go higher.

Avonmore buys Dairy Crest arm for £20m

By Maggie Urry

AVONMORE FOODS, the Irish dairy and meat group, has moved into fifth place in the UK liquid milk market with the £20.5m purchase of two dairies and 32 distribution depots from Dairy Crest, the milk and dairy products side of the Milk Marketing Board.

The dairies are in Birmingham and Hereford, and mainly supply doorstep deliveries. Avonmore is already strong in Birmingham and the West Midlands and has a sizeable business with supermarkets in the area. It also wants to expand in the south.

Dairy Crest is reconfiguring its milk capacity as a result of the falling volume of milk sold on doorsteps and the shift to producing for supermarkets. It has also completed its sale to Unigate of Marshfield Dairy in Cardiff.

Mr Pat O'Neill, Avonmore group managing director, said the changes in the UK milk industry, which will take place next year when the MMB is abolished, presented Avonmore with an opportunity to use skills developed in Ireland where the industry has been deregulated for over a century.

The acquisition will give Avonmore an extra 39m gallons of liquid milk volume, taking its total to over 85m gallons, or 7 per cent of the UK liquid milk market.

Avonmore also buys milk for cheese manufacture, and, with the liquid milk, will buy a total of 130m gallons a year.

The businesses Avonmore is buying have net assets of £19.7m, and make annual sales of £87m and pre-tax profits of £4.6m. Avonmore is paying £10m on completion with a further £10.5m next January.

Mr O'Neill said the group's cash flow would cover the consideration without raising gearing, currently 65 per cent.

Avonmore said the integration of two dairies in Wiltshire and Hampshire acquired last November was proceeding to plan.

Avonmore shares rose 7p to 150p.

Dalepak reduced to £2.2m after second half setback

By Maggie Urry

PIERCE competition in the food industry, higher meat prices and teething troubles with a new freezer plant hit profits of Dalepak, the frozen foods and ready meals maker.

At the pre-tax level they dropped from £3.83m to £2.21m over the year to April 30.

In the second half pre-tax profits fell from £2.2m to \$500,000, after £1.6m (£1.7m) for the opening period.

The group warned in March that profits would be significantly below market expectations at that time, but indicated that the dividend would be maintained.

Yesterday that promise was kept with the recommendation of a 4.5p final to give an unchanged total of 6p. With earnings per share down from

23.01p to 13p, the dividend is still covered 2.2 times.

Margins were affected in the second half by "substantial increases in meat raw material prices" triggered by sterling's devaluation last September. Those higher costs could not be fully recovered through increased selling prices.

Dalepak did not say how much delays in commissioning the new freezing plant had cost.

The shares have fallen from a peak of 88p in January, when the interim profits were announced, making Dalepak one of the worst performers in the market in the first half of the year. Yesterday the shares fell again, closing at 19p, down 12p.

Sales rose 4 per cent to £42.2m, but the financial year

covered 53 weeks and on a comparable 52-week basis they were 2 per cent higher. In frozen meat grill steaks, where Dalepak is the market leader, sales were slightly up, but in vegetable products there was a fall, despite a 17 per cent growth in the market.

Trading profits fell from £3.96m to £2.48m, with margins down from 9.7 to 5.9 per cent. Interest rose from £33,000 to £288,000 reflecting a two-year £7.3m capital expenditure programme.

The group said trading conditions remained difficult, although meat prices had stabilised. New products had been introduced and the completion of the new plant should bring cost savings.

Gearing at the year end was just below 40 per cent (23 per cent).

BAA may redevelop US airports

By Daniel Green

BAA, the UK airport operator, is in talks with several large US airports including Chicago's O'Hare, the world's busiest, and New York's JFK, over redeveloping the airports.

The company wants to take an equity stake in an airport or buy a lease on a terminal. A deal could be signed in the second half of 1994.

The move would extend BAA's presence in North America beyond Pittsburgh Airport where last October it opened a 24m shopping mall.

Since then, the average amount spent by a passenger at the airport has more than doubled to \$6 (£4) and BAA sees the project as a success.

The company is only in talks with international airports. That is where its experience lies and where it can build lucrative duty free shops.

The Pittsburgh project has also served to introduce UK retailers such as WH Smith to US airports and US retailers to the UK. TGI Friday's, a US restaurant chain, now has an outlet at BAA's Heathrow Airport.

AG Barr hit by sugar price

By Catherine Milton

AG BARR, the soft drinks company which bills its best known product as being made in Scotland from gliders, was hit by high sugar prices in the half year to May 1 and pre-tax profits fell from £3.05m to £2.1m.

Mr Robin Barr, chairman of the company which makes Irn-Bru and Tizer, said that by February 1993 the fall in the value of the Green Pound, following the UK's departure from the ERM in September, resulted in an 18 per cent

increase in the price of sugar.

He said the decline in profits was exacerbated because comparative figures included a £409,000 surplus on the sale of the investment in Taverners, a confectionery company.

Group turnover fell to £42m (£42.4m), an increase in sales of Barr's brands being offset by a decrease of retailers' own label products.

Mr Barr said turnover in the nine weeks since May 1 had been well below last year, when the weather was exceptionally favourable. The "bet-

ter spell of weather" recently was encouraging, he added.

Operating profits fell to £2.49m (£3.27m) and interest charges dropped to £389,000 (£524,000).

Mr Barr said: "We borrowed less money. We did borrow money from the bank some five years ago to fund an acquisition. We are always cash generative each year and we have gradually paid the bank loan."

The interim dividend is maintained at 1.75p payable from reduced earnings of 7.87p (10.74p) per share.

Debt precludes dividends at Lep

By Andrew Bolger

LEP GROUP, the freight forwarding and security company, said that its heavy debt burden effectively precluded any prospect of a return to dividend payments in the foreseeable future.

Mr David James, the company doctor appointed chairman when Lep was last year restructured by its banks, also told yesterday's AGM that a rights issue was not an option.

He said: "The most logical

alternative is that the board will seek to develop, as best as possible, the vitality of the core subsidiaries in order that they themselves may, at some future date, be divested from the group to realise their value."

Lep may float off all or part of the equity in core businesses to reduce its debt of £385m. Mr James said £143m of the debt was wholly used as working capital in the remaining trading subsidiaries. The balance of £242m was within the parent company and

mainly reflected past losses incurred in closed or divested activities.

Mr James believed the stage was set for recovery of the group, but the timing would depend on a lifting of recessionary conditions in continental Europe.

"The performance of our company in the east has been excellent and there has been a strong recovery in North America. The recessionary conditions in Europe remain much more severe than many politicians would admit."

Exceptionals slow growth at Border

BORDER Television, the Carlisle-based ITV company, reported profits of £1.25m pre-tax for the 12 months to April 30 - a rise of just over 2 per cent on the comparable £1.23m. Turnover fell from £11.8m to £11m.



Melvyn Bragg: expectation of real growth in second half

The outcome, however, was struck after exceptional charges of £501,000 related to redundancies; profits at the operating level showed a 44 per cent jump to £1.75m.

Mr Melvyn Bragg, chairman, said that while the early weeks of the current year matched the previous period, "there are signs that the economy has stabilised which leads to an expectation of real growth in the second half."

A recommended final dividend of 2p brings the total for the year to 3.3p (2.7p), covered

2.5 times by earnings of 8.3p (7.6p).

Seaford gearing up for battle

Mr Brian Chilver, chairman of Seaford, the Dublin-based transport, warehousing and property group, has emphasised the board's intentions to defeat the proposals by Waterglade International.

"We have a clear strategy for growth and during the next few weeks we will tell our shareholders why they should support the board," he said.

Waterglade wants an extraordinary meeting, yet to be fixed, to seek the removal from the Seaford board of Mr Chilver, Mr David Burke and Mr David Stacey. In their places it proposes Mr David Cunningham, Mr Thomas Megaw, Mr Peter Voller, and Mr David Grove, all directors of Waterglade.

Mr Chilver felt "very uneasy at these underhanded attempts to gain control of companies without making a cash bid."

"Waterglade's directors should be clear - Seaford will be no push over."

Lyons buys German biscuit manufacturer

Lyons, the food manufacturing operation of Allied-Lyons, has bought A Krombach, a German biscuit maker.

The move forms part of Lyons' strategy of expanding in continental Europe and gives the company its first food manufacturing base in Germany.

Krombach will become part of Lyons Continental Baking, which currently operates 10 factories in Benelux and France. The consideration is not material in relation to Allied-Lyons' assets.

Aviva Petroleum \$11.5m placing

Aviva Petroleum, the Dallas-based oil and gas exploration and production company, has completed a 12.5m common share placing at 95 cents per share with a group of US institutions and private investors, to raise \$11.5m (£7.6m).

Aviva also reported that Ecopetrol, the Colombian national oil company, has declared the Mary and Miraflores fields to be commercial and therefore will contribute 50 per cent of the costs of developing and placing these fields on production.

The company expects to develop the two fields during 1993 and 1994 and to have a pipeline system in place by the middle of next year.

Aviva said that the Miraflores North No 1 exploration well reached a total depth of 6,040 ft, and production casing has been set.

Halved outcome at Optometrics

Optometrics saw pre-tax profits halved in the year ended March from \$200,000 to \$103,000 (\$69,640).

Mr Frank Denton, chairman of this USM-traded company, said the year was one of investment for growth. Significant resources were committed to the acquisition of new technologies, product development and publishing of new catalogues. Operating expenses were up to \$1.07m (\$858,000) against sales virtually unchanged at \$2.53m.

The measures taken were beginning to impact positively. "We look forward to a strong first half", Mr Denton said.

First quarter shipments were "comfortably ahead" but orders booked were running

more than 40 per cent over a year ago.

Earnings per share came through at 0.7 cents (1.4 cents).

Fleming Geared shows decrease

Fleming Geared Income & Assets Investment Trust reported a net asset value of 260.9p per share at May 31, against 278.5p a year earlier. The fully diluted figure dropped from 250.2p to 236.7p.

Net revenue slipped from £3.31m to £3.01m and earnings per share were 7.7p (10.65p). Dividends totalling 7.9p (same) have already been paid for the period.

Equity Consort asset expansion

Over the 12 months to April 30 net asset value per ordinary share at Equity Consort Investment Trust rose from 618.8p to 653.7p.

For the deferred shares the value increased from £10.36 to £11.05.

Net income came to £1.48m (£1.52m) and led to earnings of 25.73p (26.38p) for the ordinary and 41.86p (43.76p) for the deferred.

The final dividend is 13.5p for a total of 24.5625p (24.1875p).

Ensor deficit down to £2.96m

Ensor Holdings, the USM-traded building materials group, reported losses of £2.96m over the 12 months to March 31.

The outcome, which compared with a deficit of £3.03m in the previous year, came on turnover of £35.8m (£46.7m) of which just £13.5m (£13.8m)

related to continuing operations, and was struck after a loss of £1.31m on the disposal of discontinued operations. Losses at the trading level increased from \$489,000 to \$597,000. Losses per share worked through at 24p (23.5p).

Lightship losses cut to £316,000

Lightship, the financial services group, cut pre-tax losses from £415,000 to £316,000 in the half year to December 31.

Losses per share were down from 7.49p to 5.89p. Directors said the reconstruction and other material events being worked on would be passed to shareholders as soon as possible.

Against the loss was charged \$411,000 (£285,000) for exceptional items and £435,000 (£1.73m) interest payable.

Continuing operations made a profit of £530,000 (£1.19m) before exceptionals and interest.

Downturn at French arm hits Kingfisher

Shares in Kingfisher fell 11p to 58p yesterday as Darty, the UK retailing group's recently acquired French electrical retailing subsidiary, announced a 0.5 per cent decline in sales in the nine months to May 31.

Darty, which has some 130 stores throughout France, reported that sales for the period had fallen from FF£8.83bn to FF£8.59bn (£768m).

FINSBURY SMALLER COMPANIES TRUST PLC

(Registered in England No. 234670)

Placing and Open Offer to Ordinary Shareholders of 'C' Ordinary Shares and Open Offer to Zero Dividend Preference Shareholders of 'C' Preference Shares to raise £10 million before expenses

The 'C' Ordinary Shares and 'C' Preference Shares convert into new Ordinary and new Zero Dividend Preference Shares

Share Capital		Maximum issued and to be issued fully paid up	
Number	£	Number	£
7,500,000	7,500,000	7,500,000	7,500,000
625,000	2,500,000	625,000	2,500,000

*Subject to the necessary resolutions at meetings of Shareholders convened for 12th July, 1993, having been duly passed.

Finsbury Smaller Companies Trust PLC invests in smaller UK quoted companies with the objective of providing a high level of total return. Listing particulars are available and may be obtained during normal business hours on any weekday, Saturdays and bank holidays excepted, up to and including 27th July, 1993 from:

Finsbury Smaller Companies Trust PLC
Nepherine House, Triton Court
14 Finsbury Square
London EC2A 1JH

Copies of the listing particulars are also available (for collection only) from the Company Announcement Office, the London Stock Exchange, The London Stock Exchange Tower, Capel Court Entrance off Bartholomew Lane, London EC2N 1JH up to and including 13th July, 1993

Friendly HOTELS PLC 1992 RESULTS

RESULTS IN BRIEF

TURNOVER	29,603
PROFIT BEFORE TAX	2,536
EARNINGS PER SHARE (fully diluted)	11.4p
DIVIDENDS	5.7p

- As difficult trading conditions persisted throughout the year, the profit achieved reflects a creditable performance, and the final dividend has been increased by 6%.
- By Autumn 1993, the Group will be operating 25 hotels with over 2,600 rooms and 18 serviced office locations.
- The first Friendly Stop Inn is now operational and sites for further Stop Inns have been identified. A number of Friendly Hotels already operating will be converted to Stop Inns in the course of the year.
- Providing our expectations for the remainder of this year are realised, the Group's profit progression should resume in 1993.

'It pays to stay Friendly'

For a copy of the latest Report and Accounts please apply to the Secretary, Friendly Hotels PLC, Premier House, 10 Greycoat Place, London SW1P 1SB.

COMPANY NEWS IN BRIEF

ARMOUR TRUST's newly formed subsidiary, Jenolite, is purchasing certain assets and the name and goodwill of Lacro from Lacro International, part of the Satra Group.

Lacro comprises a range of car care products. BARLO GROUP has received acceptances to its open offer in respect of 35.7m new ordinary shares, which together with 7.5m placed firm by Goodbody Corporate Finance, represents 95.06 per cent of issue.

The remaining shares have been taken up by investors under the terms of the placing. CAIRN ENERGY shareholders have approved the issue by Cairn Energy USA (CEUSA) of 4.75m new shares of common

stock and for Cairn to sell up to 1m existing shares in CEUSA.

DICKIE (JAMES) has acquired Striker Engineering for £165,000, satisfied by the issue of new shares at £2.25 each.

EXCALIBUR GROUP subsidiary, Mibert Precision, has broadened its gear-making capabilities by purchasing MTS, a local grinding company. MTS will become part of Spencer Gears, one of Mibert's divisions.

FERRARI's rights issue taken up by 26.7 per cent. Some 39 per cent of the issue had been placed and the balance of 1.4m shares sold in the market.

FIRST SPANISH Investment Trust has received tenders for

13.14m units (48.4 per cent) of 1.5p (gross) per unit convertible unsecured loan stock 1997 for repurchase.

FORTE has a 96.5 per cent holding in French catering company, Cora, after its public bid. Cora, which runs motorway catering facilities, was formerly owned by Accor Unit Compagnie Internationale Des Wagons-Lit Et Du Tourisme, which sold it last December.

JERSEY ELECTRICITY is paying interim dividend of 13p (12p). Pre-tax profit half year ended April 27 1993 was £3.22m (£4.37m). Electricity sales 246m units (£26.6m).

LYNX HOLDINGS has received applications for 28.13 per cent

of the shares in the recent open offer; balance taken up by sub-underwriters.

MOWLEM (JOHN) Construction is to purchase Noreast Building Management, the Government owned FSA Building Management Organisation, for £2m, to be paid in deferred instalments. The agreement with the secretary of state for the environment also contains provisions for the department to pay up to an agreed figure for any redundancy payments which might arise within the five years after the acquisition.

SOUTHERN PROPERTY says applications from shareholders, together with stock placed firm, total £12.1m (50.48 per cent of the amount offered).

MAES Funding No. 1 PLC

£200,000,000 Mortgage Backed Floating Rate Notes due 2018

Notice is hereby given that the Rate of Interest has been fixed at 6.325% for the interest period 8th July, 1993 to 8th October, 1993.

The interest amount payable on 8th October, 1993 will be £1,594.25 in respect of each £100,000 denomination.

Agent Bank 8th July, 1993

LONDON SHARE SERVICE

AMERICANS

Stock	Price	Change	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	601	600	599	598	597	596	595	59
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are based on
34% or other
estimates. All
are assumed.
terms figures
and yield to date
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forward;
into lease;
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capital distribution.
are regularly
for each
price
an report of
881 643
081) fax
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AUTHORISED UNIT TRUSTS

[illegible]

Preston (1976)	
190	-0.02
191	-0.02
192	-0.02
193	-0.02
194	-0.02
195	-0.02
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1250	50	307	5500
1300	50	307	5500
1350	50	307	5500
1400	50	307	5500
1450	50	307	5500
1500	50	307	5500
1550	50	307	5500
1600	50	307	5500
1650	50	307	5500
1700	50	307	5500
1750	50	307	5500
1800	50	307	5500
1850	50	307	5500
1900	50	307	5500
1950	50	307	5500
2000	50	307	5500
2050	50	307	5500
2100	50	307	5500
2150	50	307	5500
2200	50	307	5500
2250	50	307	5500
2300	50	307	5500
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2500	50	307	5500
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2750	50	307	5500
2800	50	307	5500
2850	50	307	5500
2900	50	307	5500
2950	50	307	5500
3000	50	307	5500
3050	50	307	5500
3100	50	307	5500
3150	50	307	5500
3200	50	307	5500
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101	27.95	-0.05	2.50
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6	62.8	-0.2	1.00
7	151.8	-0.43	1.67
8	148.0	-0.38	0.80
9	158.7	-0.3	1.27
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12	118.2	-0.31	0.72
13	118.4	-0.1	1.78
14	77.58	-0.38	1.78
15	232.7	-0.37	0.72
16	227.4	-0.2	0.73
17	227.4	-0.1	0.50
18	227.4	-0.1	0.50

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3.4	157.9	-0.1	1.27
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81.4	468.9	-0.3	-
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NOF
ECON 4EJ
[ECON] 4EJ 0000 528540

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42	86.93	0.53	0.53
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48	10	0.42	1.42
50	64.00	0.00	0.78
52	27	0.58	0.58
54	107.58	0.75	0.81
56	38.74	2.32	1.81
58	38.74	2.32	1.81
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86	38.74	2.32	1.81
88	38.74	2.32	1.81
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92	38.74	2.32	1.81
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98	38.74	2.32	1.81
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11.7	31.82	1.00	1.00
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11.9	31.82	1.00	1.00
12.0	31.82	1.00	1.00
12.1	31.82	1.00	1.00
12.2	31.82	1.00	1.00
12.3	31.82	1.00	1.00
12.4	31.82	1.00	1.00
12.5	31.82	1.00	1.00
12.6	31.82	1.00	1.00
12.7	31.82	1.00	1.00
12.8	31.82	1.00	1.00
12.9	31.82	1.00	1.00
13.0	31.82	1.00	1.00
13.1	31.82	1.00	1.00
13.2	31.82	1.00	1.00
13.3	31.82	1.00	1.00
13.4	31.82	1.00	1.00
13.5	31.82	1.00	1.00
13.6	31.82	1.00	1.00
13.7	31.82	1.00	1.00
13.8	31.82	1.00	1.00
13.9	31.82	1.00	1.00
14.0	31.82	1.00	1.00
14.1	31.82	1.00	1.00
14.2	31.82	1.00	1.00
14.3	31.82	1.00	1.00
14.4	31.82	1.00	1.00
14.5	31.82	1.00	1.00
14.6	31.82	1.00	1.00
14.7	31.82	1.00	1.00
14.8	31.82	1.00	1.00
14.9	31.82	1.00	1.00
15.0	31.82	1.00	1.00
15.1	31.82	1.00	1.00
15.2	31.82	1.00	1.00
15.3	31.82	1.00	1.00
15.4	31.82	1.00	1.00
15.5	31.82	1.00	1.00
15.6	31.82	1.00	1.00
15.7	31.82	1.00	1.00
15.8	31.82	1.00	1.00
15.9	31.82	1.00	1.00
16.0	31.82	1.00	1.00
16.1	31.82	1.00	1.00
16.2	31.82	1.00	1.00
16.3	31.82	1.00	1.00
16.4	31.82	1.00	1.00

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3271	0.53	1.17
3272	0.58	1.17
3273	0.63	1.16
3274	0.68	1.16
3275	0.73	1.16
3276	0.78	1.16
3277	0.83	1.16
3278	0.88	1.16
3279	0.93	1.16
3280	0.98	1.16
3281	1.03	1.16
3282	1.08	1.16
3283	1.13	1.16
3284	1.18	1.16
3285	1.23	1.16
3286	1.28	1.16
3287	1.33	1.16
3288	1.38	1.16
3289	1.43	1.16
3290	1.48	1.16
3291	1.53	1.16
3292	1.58	1.16
3293	1.63	1.16
3294	1.68	1.16
3295	1.73	1.16
3296	1.78	1.16
3297	1.83	1.16
3298	1.88	1.16
3299	1.93	1.16
3300	1.98	1.16
3301	2.03	1.16
3302	2.08	1.16
3303	2.13	1.16
3304	2.18	1.16
3305	2.23	1.16
3306	2.28	1.16
3307	2.33	1.16
3308	2.38	1.16
3309	2.43	1.16
3310	2.48	1.16
3311	2.53	1.16
3312	2.58	1.16
3313	2.63	1.16
3314	2.68	1.16
3315	2.73	1.16
3316	2.78	1.16
3317	2.83	1.16
3318	2.88	1.16
3319	2.93	1.16
3320	2.98	1.16
3321	3.03	1.16
3322	3.08	1.16
3323	3.13	1.16
3324	3.18	1.16
3325	3.23	1.16
3326	3.28	1.16
3327	3.33	1.16
3328	3.38	1.16
3329	3.43	1.16
3330	3.48	1.16
3331	3.53	1.16
3332	3.58	1.16
3333	3.63	1.16
3334	3.68	1.16
3335	3.73	1.16
3336	3.78	1.16
3337	3.83	1.16
3338	3.88	1.16
3339	3.93	1.16
3340	3.98	1.16
3341	4.03	1.16
3342	4.08	1.16
3343	4.13	1.16
3344	4.18	1.16
3345	4.23	1.16
3346	4.28	1.16
3347	4.33	1.16
3348	4.38	1.16
3349	4.43	1.16
3350	4.48	1.16
3351	4.53	1.16
3352	4.58	1.16
3353	4.63	1.16
3354	4.68	1.16
3355	4.73	1.16
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3357	4.83	1.16
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3359	4.93	1.16
3360	4.98	1.16
3361	5.03	1.16
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3365	5.23	1.16
3366	5.28	1.16
3367	5.33	1.16
3368	5.38	1.16
3369	5.43	1.16
3370	5.48	1.16
3371	5.53	1.16
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3373	5.63	1.16
3374	5.68	1.16
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3381	6.03	1.16
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3384	6.18	1.16
3385	6.23	1.16
3386	6.28	1.16
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3388	6.38	1.16
3389	6.43	1.16
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3392	6.58	1.16
3393	6.63	1.16
3394	6.68	1.16
3395	6.73	1.16
3396	6.78	1.16
3397	6.83	1

30.00	112.35	-0.30	1.00
30.00	108.25	+0.50	0.77
27.25	100.00	+0.25	0.69
52.5	172.8		
50.0	88.44	-0.07	1.00
51.0	122.75	-0.00	1.59

[illegible][illegible]

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

OTHER UK UNIT TRUSTS

● ET Cityline List Trust Prices are available over the telephone. Call the ET Cityline Help Desk on (971) 873-4378 for more details.

Providence Capital Fund Assoc. Co. Ltd. - Control

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CANADA (SEE TELEPHONE)

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Int	Case	Ref	OSR	+ or -
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	Charge	Price	Price	-	0
AME Groutless Joint Managers (Gruemeyer) Ltd					
PO Box 255, St Peter Port, Guernsey GY				0461 7700	
1st Class	1.00	1.00	1.00		
2nd Class	0.50	0.50	0.50		
3rd Class	0.25	0.25	0.25		
4th Class	0.12	0.12	0.12		
5th Class	0.06	0.06	0.06		
6th Class	0.03	0.03	0.03		
7th Class	0.01	0.01	0.01		
8th Class	0.00	0.00	0.00		
9th Class	0.00	0.00	0.00		
10th Class	0.00	0.00	0.00		
11th Class	0.00	0.00	0.00		
12th Class	0.00	0.00	0.00		
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41st Class	0.00	0.00	0.00		
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● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm class July 12

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NASDAQ NATIONAL MARKET[illegible]

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FINANCIAL TIMES
Perrier battle ends with something for everyone

Perrier battle ends with ...

AMERICA

Dow subdued
in cautious
start to week

Wall Street

US share prices were stuck in a narrow range amid light trading yesterday as dealers and investors prepared for this week's important inflation data and the start of the quarterly reporting season, writes Patrick Harverson in New York.

At 1 pm, the Dow Jones Industrial Average was up 1.66 at 3,522.72. The more broadly based Standard & Poor's 500 was 0.90 firmer at 448.75, while the Amex composite was up 2.51 at 436.88, and the Nasdaq composite up 1.33 at 707.14. Trading volume on the NYSE was 115m shares by 1 pm, and rises outnumbered declines by 894 to 831.

The week opened on a subdued note, with volume light by recent standards and prices trapped close to opening values. The lack of activity was due primarily to caution ahead of this week's inflation figures.

The June producer prices index is due to be released today, and the consumer prices index tomorrow, and although analysts have forecast good inflation news, investors were reluctant to trade in front of the figures.

The start of the reporting season, which will get under way in earnest this week, also seemed to be keeping many on the sidelines.

Ford, which has been well-bid in recent weeks, ran into heavy selling after a drop in the price of its shares, and a cut in its earnings forecast. Salomon's analyst said that he was concerned by the deterioration in the manufacturer's product mix, in particular its growing reliance on fleet sales. Ford fell \$2 to \$50 in volume of 1.4m shares.

The rest of the sector, however, held up reasonably well, in spite of suffering a brief setback at the opening. General Motors firmed \$4 to \$47 and Chrysler eased only \$1 to \$47.

EUROPE

Frankfurt bourse sets a new three-year high

INSTITUTIONAL enthusiasm for German equities, and the interlinked strength of the US dollar gave bourses a reasonably good day, writes Our Markets Staff.

FRANKFURT extended its official session to make up for early technical problems, and ended the official session close to its best. The DAX index closed another 20.76 higher at 1,818.17, its highest for nearly three years. German turnover fell back to DM10.6bn after Friday's DM14.3bn.

Mr Nigel Longley of Commerzbank in Frankfurt credited G7 tariff cuts, and apparent agreement about the prospect for further interest rate cuts between the Chancellor, Mr Helmut Kohl, and the Bundesbank president, Mr Helmut Schlesinger, for the change in tide of US, French and domestic investment opinion about German equities.

"A couple of weeks ago," he said, "everybody had decided what to buy in Germany - once the market had consolidated between 1,650 and 1,680. It did not consolidate," he added.

PARIS took little inspiration from domestic news, either the slightly better than expected June inflation data or the three times oversubscription for the index of all first section stocks rose 5.06 to 1,613.68. In London the FTSE 100 index was unchanged at 1,227.62.

The yen weakened as the US-Japan bilateral talks ended with a trade framework agreement calling for Japan to decrease its current account surplus by increasing domestic demand, and expanding market access for foreign products.

The dollar closed \$1.60 up at \$1.6093, helping leading exporters. Hitachi appreciated \$10 to \$951, Matsushita Electric Industrial gained \$30 to \$1,300 and Toyota Motor added \$30 to \$1,580.

Long Term Credit Bank and leading creditor banks of EIE International announced that they would abandon restructuring of the company and write off their exposure. Sea Com, an affiliate listed on the second section of the TSE, was suspended, while another affiliate, Electronic and Industrial Enterprises, was also suspended on the OTC market.

Phoenix Electric, a lighting equipment maker on the OTC market, was another suspension, this time due to a subsidiary filing for bankruptcy.

Nikkatsu, the movie producer which recently filed for court protection, was the most active issue of the day. It accounted for 30 per cent of total volume and rose \$4 to \$28 in speculative trading.

Some financials gained ground on hopes of lower interest rates, with Industrial Bank of Japan moving up \$10 to \$3,060 and Fuji Bank advancing \$40 to \$2,490.

Firm sales of new condominiums for June lifted real estate companies and housing linked issues. Mitsui Fudosan rose \$10 to \$1,290.

In Osaka, the OSE average ended 29.99 ahead at 21,959.22 in volume of 11.6m shares. Many investors remained inactive ahead of the general election this weekend.

There was a mixture of performances from the region's markets yesterday. AUSTRALIA broke through the 1,800 level for the first time since October 1987 as investor demand spilled over from the successful flotation of Woolworths. The All Ordinaries index closed 18.9 higher at 1,801.8; trading was extended by 3 1/2 hours to cope with the new listing.

Shares in Woolworths reached A\$2.98 within a minute of listing, against an issue price of A\$2.45, and finished with a 36-cent premium at A\$2.81. Turnover in the stock was estimated at A\$91.8m, boosting market turnover to A\$694.2m.

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TAIWAN slipped back slightly on profit-taking and the weighted index closed 0.88 off at 4,078.71. Turnover shrank to \$16.2bn from the \$21.1bn registered during Saturday's half-day session.

The Investment Commission reported yesterday that new foreign investment in the country had declined by 24 per cent in the first six months, compared with the same period in 1992.

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ASIA PACIFIC

Nikkei average rises on hopes of an interest rate cut

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German powerhouse for Europe

MARKETS IN PERSPECTIVE					
	% change in local currency			% change sterling	% change in US \$
	1 Week	4 Weeks	1 Year	Start of 1983	Start of 1989
Austria	+3.18	+5.87	+0.50	+12.69	+7.85
Belgium	+1.15	+0.01	+1.34	+0.78	+12.73
Denmark	+0.88	+4.45	+0.54	+0.63	+13.68
Finland	+6.91	+14.75	+76.84	+58.41	+45.31
France	+1.89	+3.55	+7.75	+9.15	+5.34
Germany	+5.38	+6.22	+1.45	+15.24	+11.80
Ireland	+1.52	+2.12	+26.64	+33.21	+18.02
Italy	+1.88	+5.30	+41.33	+32.63	+23.48
Netherlands	+1.96	+4.57	+16.43	+17.15	+12.23
Norway	+3.20	+9.69	+14.63	+20.62	+18.53
Spain	+0.59	+0.42	+11.33	+20.62	+6.98
Sweden	+2.00	+3.31	+27.41	+13.64	+2.89
Switzerland	+1.59	+3.98	+28.71	+17.41	+14.89
UK	+0.42	+0.56	+16.18	+1.66	+1.66
EUROPE	+1.25	+2.47	+14.66	+10.29	+7.35
Australia	+0.59	+2.73	+3.78	+11.31	+10.77
Hong Kong	+2.20	+3.57	+14.05	+28.69	+31.28
Japan	+1.62	+2.47	+26.68	+21.85	+38.75
Malaysia	+0.50	+4.34	+36.71	+34.62	+28.62
New Zealand	+2.09	+4.18	+17.19	+18.85	+23.01
Singapore	+1.12	+2.88	+13.41	+15.52	+16.52
Canada	+1.92	+0.05	+6.24	+10.42	+9.88
USA	+0.44	+0.45	+6.63	+3.15	+5.22
Mexico	+1.00	+0.98	+10.10	+7.58	+5.67
South Africa	+0.76	+0.51	+19.59	+32.02	+41.94
WORLD INDEX	+0.92	+2.05	+14.93	+10.79	+13.60

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By William Cochrane

Europe, up 2.4 per cent in local currency terms and excluding an unsettled UK market, took most of the credit for last week's 0.9 per cent gain in the FT-Actuaries World Index. Nordic markets maintained their recent contribution with a rise of 1.9 per cent, but Germany was the powerhouse with a climb of 5.4 per cent, virtually all of which came last Wednesday and Thursday.

Dealers were more bullish than analysts on Frankfurt ahead of the event. Mr Patrick Bettelheim, equity dealing head at Bank Julius Bär in Frankfurt, said last Friday week that the bank was seeing strong US demand for scrip, and that foreign demand for German equities had been a feature of its business over the previous six weeks.

German daily turnover was moderate at that time, in the DM6bn area, but last week it hit a sequence of DM5.2bn, DM3.3bn and DM15.5bn.

In Düsseldorf, Merck Finck said there had been a change in Anglo-Saxon investment attitudes, a feeling that the bottom had been reached in the German economic cycle, a willingness to look through what will be some dreadful results for 1993 into recovery prospects for 1994 and 1995.

In London, however, Nikko Securities, a bear of the market, expresses the doubts which many share over the valuation base of the market. "We believe that the forthcoming reporting season will reveal that German industry is still suffering from the recession and that the turnaround is not close at hand," says Nikko in its current Germany note.

"In addition, the underlying restructuring problems of reduced international competitiveness and resilient inflation have yet to be addressed by the market," adds the Japanese brokerage house.

"The market is a fundamental sell, but in the near term, inward capital flows and traders' reluctance to be short could mean a brief period of activity around the [DAX] 1,800 level."

Between mid-1990 - when monetary union of the two German states was effected - and March 1993, administered prices rose by around 12.5%, compared with a general increase of 11.4%. The latter figure was also influenced by the raising at the start of 1993 of value-added tax, which is not included among administered prices. At 12.7%, the advance in those prices that are set entirely by the government (1) was only marginally higher than that of consumer prices in general.

These rough calculations in themselves are sufficient evidence that claims concerning the state's impact on consumer prices are generally rather exaggerated. However, the prices of nine of the ten goods and services which have shown the sharpest increase since 1985 are set to one degree or another by the state.

In order to make the huge financial burden of German unification more manageable, the government has raised excise duties several times over the past two years and the charges for municipal services have also gone up - dramatically in the case of water and refuse disposal. Consumers have been hit hard by these increases. For one thing, expenses of this type now claim a much greater share of incomes. For another, consumers are largely dependent on public-sector institutions for these goods and services. As most households are unable to find substitutes, they can reduce their outlays only by curbing consumption.

Given the current state of the public finances, the outlook as regards administered prices is not good. While an economic recovery will generate higher tax revenues, the growing importance attached to environmental protection will in itself make many of the relevant services more expensive.

Administered prices provide the state with a powerful tool for influencing demand and output, either by subsidizing goods or by imposing a tax on them. This instrument needs to be used responsibly, though, in line with general policy goals - e.g. to encourage environmental protection, energy conservation and higher standards of health. It should not become a revenue raiser for fiscal purposes, as the negative repercussions on growth of a massive increase in the tax burden would undermine the consolidation strategy. Similarly, the government's attempt to boost its revenues by means of higher administered prices would prompt the Bundesbank to pursue a more cautious line.

COMMERZBANK
German know-how in global finance

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FT-SE Actuaries Share Indices

		THE EUROPEAN SERIES									
		July 12	July 13	July 14	July 15	July 16	July 17	July 18	July 19	July 20	July 21
Hourly changes		Open	High	Low	Close	Open	High	Low	Close	Open	High
FT-SE Actuaries 100	1230.06	1230.06	1230.06	1230.06	1230.06	1230.06	1230.06	1230.06	1230.06	1230.06	1230.06
FT-SE Actuaries 200	1274.12	1274.12	1274.12	1274.12	1274.12	1274.12	1274.12	1274.12	1274.12	1274.12	1274.12

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